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BACKGROUND, PROBLEMS AND SUGGESTED CHANGES

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A Report
to
The 38th Legislative Assembly

By The
SCHOOL FOUNDATION STUDY COMMITTEE

December, 1962

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Honorable Tim Babcock, Governor of Montana, and Members of the 38th Legislative Assembly.

The Foundation Program Study Committee is pleased to submit this report in compliance with House Resolution Number 5 of the Montana House of Representatives, 1961 session.

In developing this report effort was made to encourage all groups interested in education to appear before the committee and to present a written and oral report. These were most helpful.

The committee is recommending eight specific improvements; on sources of support for these changes, alternatives are presented. These represent the carefully considered judgment of the committee after thirteen meetings, research by subcommittees, study of reports from other groups and evaluation by the membership during the past seventeen months.

We acknowledge the assistance of the University system faculty for research on which these recommendations are based and for compilation of this report.

We sincerely hope these recommendations will be of value to you in the coming legislative session. Members will be available, at your request, for clarification or added information.

Respectfully submitted
Foundation Program Study Committee
Dean Chaffin, Chairman.

School Foundation Study Committee

(*Executive Committee)

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INTRODUCTION

Procedure

At the request of the legislature, the late Governor Nutter appointed a 51-member representative citizen committee to study the Foundation Program and submit proposals for elimination of inequities. The late Governor, in his charge to the committee at their first meeting, emphasized that we were to consider modifications; the legislature had stated six problem areas for our study. The committee elected officers and decided to form an executive committee of eleven. The original committee was divided into five subcommittees, serving as task forces on problem areas.

This report was based on subcommittee reports; an outline was reviewed by subcommittee chairmen; the first draft was presented to the executive committee for modifications; a preliminary report was sent to the whole committee for review before the final meeting on November 17, 1962, when final adoption was made with no opposition after minor editorial changes.

The committee received no state financial support. However, state agencies contacted were most helpful in supplying basic data. The principal cost was in printing this report; contributions from interested organizations financed this. Members not only financed their own participation, but paid dues to supply a small operating account.

Current, accurate data is not available on all problem areas. In order to get 1962-63 information best available estimates were used. When estimating the financial situation for the next biennium rough estimates were obviously all that were available. Official estimates of the various state agencies for the legislature will be more accurate. The general conclusions will still be valid.

House Resolution Number 5

INTRODUCED BY KVAALEN, LEUTHOLD, REED, SEYMOUR, REGAN, GUSTAFSON, LNNDGREN, HIGHAM, WRIGHT, ROSELL, KOLAR, ANDERSON (YELLOWSTONE), HAWKS, CERVOSKI, SPAHR.

A RESOLUTION OF THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA REQUESTING THE GOVERNOR TO APPOINT A COMMITTEE TO RECOMMEND IMPROVEMENTS IN THE SCHOOL FOUNDATION PROGRAM TO THE 38TH LEGISLATIVE ASSEMBLY.

WHEREAS, the State of Montana has an obligation to contribute financial support to the various school districts in order to alleviate the burden on property taxes; and

WHEREAS, this financial support should be distributed to the districts by means of an equalization formula; and

WHEREAS, although the current foundation program is basically sound, it has weaknesses which cause inequity and misunderstanding; and

WHEREAS, the current program is so complex in its structure and operation that the average person has extreme difficulty in understanding its theory or application; and

WHEREAS, factors which create or tend to create inequities in the foundation program, either of themselves or by interrelation with other factors including the following:

(1) Inequality of valuation and assessment of property among the various counties;

(2) The granting of budgeting authority to school districts as a concomitant of increases in foundation program schedules;

(3) The failure of the state to provide sufficient money to meet its full share of the foundation program, resulting in the imposition of "state deficiency" levies;

(4) The absence of appropriate provisions which would permit adjustment for anticipated enrollment changes in determining entitlement under the program;

(5) The 50% limitation on state participation in the foundation program, which, as the program now operates, deprives many school districts of the benefits which should result from a state equalization level of 100%;

(6) Schedules in the foundation program which do not fairly take into account the relative costs of education in schools in various enrollment categories.

NOW, THEREFORE, BE IT RESOLVED BY THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA:

That the House of Representatives request the Governor to appoint a committee, representative of groups and individuals interested in and concerned with elementary and secondary education, to make a thorough study of the foundation program and the elimination of inequities therein, and to prepare and submit to the 38th Legislative Assembly proposals for corrective legislation.

HR No. 5

CHECKLIST OF POSITIONS OF ORGANIZATIONS REPORTING TO THE COMMITTEE ON SIX KEY PROBLEMS

	F.P. Schedules	50% Limitation	State Deficiency	Budgeting on Current ANB	Isolation	Sources of Financial Support
Montana School Board Association	¾ of average cost	remove or increase the percent	legislature should provide sufficient funds to meet its obligations	adjust to current year		
Montana Farm Bureau	only to the amount the state can meet	set schedule so this is not a factor	state should meet its obligation 100 percent		no forced consolidation	restrict federal money to impacted areas
Montana Education Association	75% to 80% of average general fund	would not oppose removal	state to meet full obligation under realistic, adjusted schedule	adjust for enrollment increases		
Montana Stock-growers	not increased beyond the ability of the state to finance	ratio of local effort needed if removed	legislature must finance the schedule	project ANB if confidence in method		1. need reclassification and uniform assessment 2. people determine new sources
Montana Ass'n of School Admin.	increase minimum to 75% of general fund; use accreditation standards	raise to 60 percent or 70 percent	eliminate by using Peabody method of distributing state equalization funds	current year basis on anticipated enrollment	define isolation	1. sales tax or 2. proportional income tax
Montana Farmer's Union	favor adequate schedules		appropriation so state can meet full share	budget on expected enrollment	in many areas there is need for school reorganization . . . with knowledge and consent of people concerned	1. federal aid 2. no district levy for the Foundation Program
Montana Ass'n of County Supts.	use cost of education index based on a realistic basic schedule	eliminate 50 percent limitation	full equalization by the state	take care of known enrollment increases		recommend that new sources of state revenue be found
Parent-Teachers Ass'n	increase at least 10%	remove the limitation	state should meet full obligation	computed on current anticipated enrollment		1. increased income tax earmarked for schools
State Dep't of Public Instruction	amend to reduce inequities that exist		state meet its obligation; match F. P. Schedule increases	current basis rather than last year		1. statewide standard of taxation 2. more state money a pressing need
Montana Taxpayer's Ass'n	adjusted by State Board of Education to get 100% equalization	eliminate	adjust F. P. to accomplish 100% equalization	amend to permit known increases if teachers hired	study isolation	

II BACKGROUND

Public School General Fund Financing

The School Foundation Program was established by the legislature in 1949 after four years of intensive study by laymen and educators at the state and local level. Administrative unit reorganization and equalization of assessment were companion recommendations which were not adopted at that time.

Philosophically, the Foundation Program was to guarantee each child a basic educational program. Equality of educational opportunity was combined with equality in financing the program. The state legislature would establish a minimum financial level; trustees could determine additional permissive levies; and voters would decide on special levies for support of the desired program in that locality.

Three major sources of support of the Foundation Program were first visualized, (Interest and Income funds, Property levies—5 mill district elementary, 10 mill elementary, 10 mill county high school, and State Equalization Funds).

There has been an increase of 130.8% in the total general fund expenditure from 1949-50 to 1961-62. However, the voted and permissive levies have increased 280.6%, the levy under the 50% law is up 543.2%, and a state deficiency is still present. The Foundation Program schedules have not kept pace with the rising cost of education and the 1949 plan does not serve as well as a basis for allocation as it once did.

The average increase in the foundation program on a per pupil basis was about 35% in this twelve-year period. National figures show that the per pupil cost increased 69.5% in the last ten years of this twelve-year period. In Montana the level of expenditure per child as determined by schedule, trustee action on permissive levy and citizen action on voted levy increased 51% in the per pupil budget cost for the twelve-year period.

The foundation program schedule has not kept pace with the national increases in per pupil costs; neither has it kept pace with the pattern Montana citizens apparently desire as shown by trustee and citizen action on permissive and voted levies. In 1949-50 these levies represented 18.8% of the foundation program, while in 1961-62 the permissive and voted levies were 32.3% of the foundation program for that year.

TABLE 1

PUBLIC SCHOOL GENERAL FUND FINANCING[1]
1949-50 to 1961-62
(Dollar figures are reported to the closest thousand)

	1949-50	1955-56	1961-62	Percent of Increase From 1949-50
Average Number Belonging Elem.	73,861	91,479	110,589	49.7%
H. S.	24,113	29,972	39,165	62.4%
Elementary Budget				
Foundation Program	$14,269	$19,287	$27,824	95.0%
Permissive Increase	2,094	5,064	7,775	271.3%
Voted Levy	1,242	1,655	3,865	211.2%
TOTAL General Fund	17,605	26,006	39,464	124.2%
High School Budget				
Foundation Program	$6,272	$8,370	$11,728	87.0%
Permissive Increase	769	2,133	3,230	320.1%
Voted Levy	656	1,216	3,966	504.6%
TOTAL General Fund	7,697	11,719	18,924	145.9%
Financing				
Foundation Program			856*	.....
State Equalization	$5,871	$6,269	$13,512	130.1%
Interest and Income	1,900	4,937	3,691	94.3%
25 Mill Property Tax	10,730	14,002	16,533	54.1%
Levy Under 50% Law	614	1,585	3,949	543.2%
State Deficiency	1,426	866	1,867	30.9%
Voted and Permissive Levies	4,761	10,068	18,118	280.6%
TOTAL	$25,302	$37,727	$58,388**	130.8%
Per Pupil Budget Cost	$258.25	$310.63	$389.89	51.0%

[1]1949-50 and 1955-56 Biennial Reports of the State Department of Public Instruction were used; 1961-62 figures were taken from school budgets by the Montana Taxpayer's Association. The ANB are from the 1962-63 budgets which are based on 1961-62 ANB.

*Classroom unit assistance fund.

**The financing breakdown does not total to this amount; the problem is in the classroom unit fund—some of which is used in the foundation program deficiency area while the rest is used in the permissive. The general trends are still valid.

TABLE 2

Estimated Current Expenditure for Public Elementary and Secondary Schools Per Pupil in A.D.A. in the West[1]

STATE	1961-62 Dollars Per A.D.A. Amount	Nat'l Rank	1951-52 to 1961-62 Percent of Increase Amount	Nat'l Rank
Oregon	$477	6	50.9	43
Wyoming	$475	8	52.4	39
California	$472	9	81.0	8
Washington	$450	12	58.6	32
Arizona	$445	14	69.4	17
Montana	**$445**	**15**	**47.3**	**47**
Nevada	$440	20	67.3	22
Colorado	$426	22	68.3	20
New Mexico	$361	32	38.2	50
Utah	$347	36	76.7	10
Idaho	$309	40	46.0	48
NATION	$414		69.5	

[1]"Rankings of the States, 1962", pp. 53-54, Research Division of the National Education Association.

The per pupil cost (expressed as current expenditures per average daily attendance) has risen rapidly nationally during the past ten years. Montana's costs have increased at a slower rate. Current expenditure usually includes all costs other than debt retirement and capital outlay; therefore, it would include more than Montana's general fund budget which is principally supported by the Foundation Program money. Eight of the eleven Western states have current unit expenditures above the national average but only two have a percent of increase above the national average.

The question of how general fund budgets are expended is often asked. National and state comparisons are presented.

TABLE 3

COST OF EDUCATION by PURPOSE

(Expressed as a Percentage of General Fund)

	NATIONAL[1]	MONTANA[2]
Administration	4.2	4.7
Instructional Services Salaries and supplies	76.9	72.2
Operation and Maintenance	14.3	15.7
Other general fund expenditures	4.6	7.4

[1]School Management, January, 1962, page 95 for 1960-61.

[2]Biennial Report of the Superintendent of Public Instruction, December 1, 1960, page 17 for 1958-59.

Transportation, debt service, capital outlay, lunch and adult education were not included. The pattern of major items is similar. Improvements being made in reporting of expenditures and summaries by the State Department of Public Instruction will provide accurate expenditure figures on a continuing basis. These actual expenditure figures by categories should provide a better basis for schedule determination than has been available in the past. Budgets represent only a plan of action and do not always reflect actual practice.

The Teacher

TEACHER SALARY

Since professional instructional staff salaries are almost 7/10ths of the general fund budget, a study of teacher salary levels, workload and preparation is pertinent to an understanding of Montana public school finance.

TABLE 4

Average Salary of Instructional Staff in Public Schools in Western States[1]

	1949-50	1955-56	1961-62	% of Increase 1949-50 to 1961-62
Arizona	$3,556	$4,472	$6,150	72.9
California	3,800	5,243	7,325	92.7
Colorado	2,821	4,012	5,550	96.7
Idaho	2,481	3,550	4,700	89.4
Montana	**2,962**	**3,633**	**4,900**	**65.4**
Nevada	3,209	4,496	6,000	87.0
New Mexico	3,215	4,492	5,765	79.3
Oregon	3,323	4,423	5,970	79.7
Utah	3,103	3,922	5,217	68.1
Washington	3,487	4,554	6,065	73.9
Wyoming	2,798	3,851	5,425	93.9
NATIONAL AVERAGE	$3,010	$4,156	$5,716	89.9

[1]Figures for 1949-50 and 1955-56 are from the Office of Education, while the 1961-62 figures are estimates of the NEA Research Division.

Instructional staff includes teachers, principals, supervisors, librarians and counselors. Montana, which ranked eighth in the eleven Western states in 1949-50, ranked tenth in 1955-56 and tenth in 1961-62.

The table can be properly used for illustrating a **decline in competitive position in Montana teacher salaries as compared to 1949.** There are factors that prevent a true comparison of salary structure for teachers in the West. Montana has the lowest percentage of degree teachers in the elementary schools of nine Western states reporting (See TABLE 8). While only 1.8% of the nation's teachers were in one-room rural schools, 9.0% of Montana's teachers worked in one-room schools in 1959-60; and the average salary for these teachers nationally was only 62% of the average salary of all classroom teachers. These two factors (lower level of preparation in elementary and larger percentage of rural) are depressants on the average salary. The effect of these factors is further illustrated by these figures issued by the Montana Education Association in 1960:

	United States	Montana
Elementary Classroom Teacher	$4,835	$4,225
High School Classroom Teacher	$5,334	$5,150

Three Montana cities were included in a study of existing salary schedules for 708 cities of more than 25,000 population for 1961-62.

TABLE 5

Teacher Salary Schedules in Cities With Population of 25,000 and Over for 1961-62[1]

	B. A. Minimum	B. A. Maximum	M. A. Minimum	M. A. Maximum
Median Nationally	$4,400	$6,800	$4,700	$7,400
Montana No. 1	4,900	7,100	5,300	8,800
Montana No. 2	4,500	6,740	4,800	7,520
Montana No. 3	4,193	5,852	4,475	6,357
Median of 44 selected from West and North Central	$4,500	$7,000	$4,900	$7,630

[1]Hartford Salary Study Report for 1961-62.

Two of the largest Montana schools have established salary schedules competitive with similar-sized schools in the area and the nation; this still leaves major staffing problems for the smaller schools, of which Montana has an unduly large proportion.

While teacher salaries have risen rapidly, a similar situation is true for all employed persons. Comparisons can be made over an extended period.

TABLE 6

Comparison of Teacher Salary and Personal Income of Labor Force[2]

Year	Average Salary Per Instructional Staff Member	Personal Income Per Employed Member of the Labor Force	RATIO Teachers To All Employed
1934-35	$1,255	$1,357	.92
1939-40	1,441	1,609	.90
1944-45	1,846	2,510	.74
1949-50	3,010	3,543	.85
1954-55	3,991	4,524	.88
1958-59 (Latest data)	4,959	5,514	.90

[2]"Trends in Financing Public Education, 1929-30 to 1959-60, U. S. Department of Health, Education and Welfare, page 98.

STUDENT-TEACHER RATIO

Student-teacher ratio is the principal explanation for Montana's below average teacher salary and above average per pupil cost. It is the price of a sparsely settled area with many small administrative and attendance units.

The Northern Great Plains area (North and South Dakota, Wyoming, Nebraska, Montana and Kansas) has the lowest student-teacher ratio in the nation.

TABLE 7

Western State Student-Teacher Ratios—Fall, 1960[1]

STATE	Pupils Per Classroom Teacher	Nat'l Ranking
Wyoming	19.9	3
Montana	21.3	5
Oregon	22.7	9
Colorado	23.5	12
Nevada	23.6	15
New Mexico	24.3	21
Idaho	25.0	22
Washington	26.0	28
Arizona	27.4	39
Utah	27.9	42
California	28.1	44
NATION	25.7	—

[1]"Rankings of the States, 1962", page 26, Research Division of the National Education Association.

However, again averages alone do not always present the total picture. During the 1959-60 school year, Montana had 589 one teacher elementary schools with an average enrollment of only eight pupils each. There were also thirty-five high schools with fewer than forty students each, and a student-teacher ratio of less than ten.

Using data from the 1961-62 Montana Education Directory for Montana's four largest cities (Billings, Butte, Great Falls, Missoula), there was a student-teacher ratio of 26.5 to 1; these schools enroll about one-fourth of Montana's public elementary and secondary students.

TEACHER PREPARATION

In high school the four-year degree is accepted as a minimum pattern of preparation in all but one state; some states are moving to an added year of training. In elementary, forty-three states also require a four-year degree. Montana does not.

TABLE 8

Elementary Teacher Preparation in the West—1958-59[1]

	180 Qtr. Credits or More In Percent	90-179 Qt. Cr. In Percent	Less Than 90 Qt. Cr. In Percent
Arizona	98.4	1.6	—
New Mexico	96.0	4.0	—
Utah	91.8	7.7	0.5
California	90.9	8.9	0.2
Colorado	84.0	15.5	0.5
Washington	83.2	16.8	—
Nevada	68.8	30.3	0.9
Wyoming	57.2	41.4	1.4
Montana	41.5	56.0	2.5

Idaho and Oregon were not reported.

[1]National Education Association Research Bulletin, April, 1959, page 59.

We do not have as good a position for attracting and retaining teachers in 1962 as we had in 1949. The student-teacher ratio is lower than the nation but comparable to states in the Northern Great Plains. The level of preparation for elementary teachers is among the nation's lowest.

Enrollment

One obvious reason for an increase in the total cost of Montana public elementary and secondary school education in the period 1949 to 1962 is the increased enrollment. (See Table 9). High school enrollment can be expected to increase more rapidly during this decade than elementary enrollment. This conclusion has also been reached by the National Education Association study and Montana's Peabody Study. Estimated rate of growth agrees with the N.E.A. study and Peabody's for high school; the latter estimated elementary enrollment increasing more rapidly. A leveling out of the birth rate in the last half of the previous decade accounts for this slowdown in rate of enrollment growth.

If inflation and improvements were ignored, the total cost of education could have been expected to increase by 52.9% for grades 1-12 from 1949-50 to 1961-62 because of the enrollment increases as measured by change in A.N.B. (See Table 1).

TABLE 9

Original Enrollment Trends and Forecasts for Montana Public Schools, Grades 1-12, from 1949-50 to 1969-70[1]

School Population Year	Births	(Year)	Grades 1-8	Grades 9-12	Total
1949–50	11,407	(1943)	78,001	25,644	103,645
1950–51	10,943	(1944)	79,034	26,393	105,427
1951–52	10,601	(1945)	80,113	26,970	107,083
1952–53	12,858	(1946)	82,978	27,996	110,974
1953–54	15,086	(1947)	87,242	28,946	116,188
1954–55	15,035	(1948)	90,054	29,857	119,911
1955–56	15,366	(1949)	94,312	31,332	125,644
1956–57	15,592	(1950)	97,775	32,600	130,375
1957–58	15,929	(1951)	99,216	34,297	133,513
1958–59	16,479	(1952)	102,515	35,255	137,770
1959–60	16,596	(1953)	105,850	35,831	141,681
1960–61	17,276	(1954)	110,015	37,331	147,346
1961–62	17,454	(1955)	111,575	39,450	151,025
1962–63	17,703	(1956)	113,375	41,600	154,975
1963–64	18,219	(1957)	115,750	43,600	159,350
1964–65	17,275	(1958)	117,175	44,825	162,000
1965–66	17,646	(1959)	118,875	45,075	163,950
1966–67	17,349	(1960)	119,250	45,825	165,075
1967–68	17,152	(1961)	119,325	47,000	166,325
1968–69	17,500	(1962)	119,775	48,050	167,825
1969–70	17,500	(1963)	119,800	49,150	168,950

[1]Research Record, School of Education, M.S.U., Jan.-Feb., 1961, revised November 1, 1962.

Figures below the heavy line (Table 9) are estimates. The births are placed in the same row as first grade enrollees; those born in 1943 started school (except for those born the last of the year) in September, 1949. Original enrollments are counted only once though they may transfer schools.

These estimates are more conservative than those given our committee by other groups; one group projected 1969-70 as 200,000. Differences result from the method used and assumptions made. The cohort survival technique was used on the enrollment estimates. The record of previous years on such factors as percent of private school enrollment, percent of high school attendance, retention rates, and similar economic conditions are assumed. Birth rate is assumed to be leveling off and net migration is assumed to remain about the same.

Changes are taking place in the population patterns in Montana. Since 1930 Montana has had an increase in population of 25.5%, but urban places (over 2,500) have shown a 69.7% increase; centers with 1,000 to 2,500 people have increased 69.0% and the rest of the state has a 7.2% loss. Seventeen plains counties have shown consistent population decreases in this thirty-year period. Obviously, some areas in Montana have experienced, and will continue to experience, enrollment increases considerably beyond the statewide rate of growth. It is also true that the problem of sparsity will be an even more serious factor in some areas. Montana, surpassed only by Alaska,

Nevada and Wyoming, in sparsity of population, is becoming more urbanized, and as a result, "the cost of public and private services for people remaining (in the rural areas) has increased by more than 15%, figured on a per capita basis at the 1950 price level and without any improvement in services."[1]

An analysis of population by age groups presents pertinent information:

TABLE 10

Changes in Age Distribution in Montana from 1950 to 1960[2]

	1950	1960	Percent of Increase
Young (Under 18)	194,930	260,408	34.1
Mature (18-64)	345,230	348,939	1.1
Old (65 and older)	50,864	65,420	28.6

[2]Montana Agricultural Experiment Station, 1961, Circular 234, page 10.

TABLE 11

Distribution of Population in broad age categories by percent for 1960[1]

	Under 18	18-64	65 and Over
United States	35.8	55.0	9.2
Western States	36.2	55.2	8.6
Montana	38.6	51.7	9.7

[1]U. S. Census of Population, 1960, U. S. Summary General Population Characteristics PC (1), 1B, U. S.

TABLE 12

Estimated Percent of Increase in Population by Age Groups, 1960-1970[1]

	Ages 5-13 (Elem.)	Ages 14-17 (H.S.)	Ages 18-21 (College)	Ages 22-64 (Wage Earner)	65 and Over (Retired)
United States	17.1	42.7	56.6	12.2	21.0
Montana	14.8	43.1	59.9	6.6	17.7

[1]National Education Association Research Bulletin, Oct., 1961, pages 90-91.

There are fewer of us, percentagewise, in the income-producing group than nationally; our numerical growth has been very slow (1.1%) in the past decade and future predictions indicate a similar situation. Those who require education services have increased rapidly in the past decade; and there will be sharp increases in high school and college age groups this decade in Montana as in the nation. We in the income earning group are required to make greater effort to provide a comparable level of services for our youth.

[1]"Montana's Human Resources, Number and Distribution of People", Sept, 1960, Circular 231, Montana Agricultural Experiment Station, pages 5-7.

Improvements In The Montana Educational Program — 1949 - 62

Another factor, less easily quantified, in the increased cost of education is the improvement in the minimum program requirements as set by the State Board of Education. In addition, local communities have provided additional improvements in type and quality of service in the past twelve years, financed through voted and permissive levies.

Included in the improvements in the MINIMUM requirements are:

GUIDANCE — a full-time certified counselor is to be provided in every high school of 500 or more students; smaller schools have a part-time counselor. (5% cost increase estimated)

CURRICULUM — the required subjects for high school graduation were increased from 4 credits to 9½ credits; this requirement preceded but paralleled the the curriculum suggested by Dr. Conant in his recent study of the American high school.

LENGTH OF SCHOOL TERM — 180 days of classroom instruction are now required; related days, such as conferences, conventions, registration and extra-curricular activities, are no longer counted. (Instructional time will be increased by an estimated 5%; costs will rise slightly).

COURSES OF STUDY — are being prepared in all major subject matter areas under the direction of consultants in the State Department of Public Instruction. Teachers from Montana's elementary, secondary and University units are volunteer workers in this vital work.

LIBRARY—at least a doubled expenditure is required for books and higher requirements are also in effect for librarians; additional staff is also required under the new standards. Library improvements are a quality feature and also an added cost factor.

ADMINISTRATION—schools with thirteen or more elementary teachers now must have a full-time certified principal; smaller schools are required to have a part-time principal. More effective supervision should result in an improved program. (Costs increase by more than 5% in the elementary school for this service.)

TEACHER PREPARATION — new teachers with less than a degree must continue to earn credits and complete their degree program within eight years. High school teachers have more credits required in the subject areas taught. Many teachers are returning to college for advanced study. Salary schedules are usually based, in part, on the college credits earned.

A Cost Of Education Index

The State Department of Public Instruction has recently completed a thorough study of inflationary effects on educational expenditures. The Bureau of Labor Statistics used 1947-49 as a base year; this study used a similar base.

Elementary and secondary schools were each grouped into three size categories and four schools selected geographically from each group with variation of size within the group. These were weighted by ANB as related to the state enrollment.

The first step was to obtain the general fund components using the 1961-62 budgets as a source. Then standards for comparison, chiefly from the Bureau of Labor Statistics, were obtained, using 1947-49 as the base year. For example, $183.20 was required in 1962 for professional salaries which cost $100 in 1947-49. This was based on the "Index of Average Salaries of Public School Teachers", published by the U. S. Bureau of Labor Statistics, Report No. 194. The Mountain Region Subdivision (Montana, Arizona, Colorado, Idaho, New Mexico, Utah and Wyoming) was used for the comparison.

Each index when applied to the proper component provides an index of the cost of education. In the elementary schools $181.42 was needed in 1962 to purchase the same services which cost $100 in 1947-49. In the high schools the cost of education index was $182.89 for the same services.

For this same twelve-year period the average teacher salary increase nationally was represented by an index of 189.9 (See Table 4). The cost per student increased at a rate of 7% per year nationally from 1951 to 1961. (See Table 2).

The three techniques produce consistent results. A factor of 1.8 seems defensible.

The combined effect of this cost increase and enrollment increases can be obtained by applying this index (1.8) to the A.N.B. enrollment increase index (1.53 for 1949-50 to 1961-62). The expected general fund increase for 1949-50 to 1961-62 would be 1.8 x 1.53 or 2.75. Actually, total general fund expenditures increased in this period 2.31 times. No consideration is given in this method to an improvement factor in the quality of services. Montana's school costs have not risen as rapidly as enrollment and cost increase factors would indicate.

Effort and Ability

These questions can be fairly asked:

1. What are our resources for support of services? How have they changed?

The point of greatest concern is that among the fifty states Montana has had next to the slowest rate of economic growth in the past decade as measured by percent of increase in per capita personal income.

TABLE 13

Per Capita Personal Income, 1960, and Percent of Increase in Per Capita Personal Income, 1950 to 1960, in the West[1]

State	Per Capita Income Amount	Per Capita Income National Rank	% Increase, 1950 to 1960 Amount	% Increase, 1950 to 1960 National Rank
Nevada	$2,844	3	46.7	33
California	2,741	5	49.0	26
Wyoming	2,334	12	43.8	36
Colorado	2,320	14	60.7	6
Washington	2,317	15	38.7	44
Oregon	2,259	18	41.2	41
Montana	2,018	27	26.1	49
Arizona	2,011	28	55.3	15
Utah	1,910	32	49.0	27
New Mexico	1,806	38	55.4	14
Idaho	1,796	39	40.4	43
NATION	$2,223	—	49.4	Median of 50 States

[1]"Rankings of the States, 1962", page 34, Research Division of N.E.A.

Are we faced with a continual decline in competitive position in education this decade? Should Montanans exert even greater tax effort, using education and its partner, research, as a means of developing human resources as well as more effectively developing natural resources to move the state ahead?

Montana is a primary wealth-producing state; mining and agriculture have been our key producers of raw materials. Much of this has been processed in other states. Changes in methods of production have made major changes in farm and mineral employment. Further changes are likely.

2. How much are we spending for state and local services? How is it distributed?

TABLE 14

Per Capita State and Local Expenditure[1] (for 1960)

Function	Montana Amount	Montana Percentage	United States Amount	United States Percentage
Education	$116.67	34.1	$104.00	36.1
Health & Hospital	19.32	5.8	21.09	7.3
Highways	88.79	26.5	52.38	18.2
Police & Fire Protection	10.92	3.2	15.85	5.5
Public Welfare	22.12	6.6	24.47	8.5
Sewage, Sanitation	8.99	2.7	9.60	3.3
All Others	67.41	20.1	60.85	21.1
Total Direct Expenditure	$334.22	100.0	$288.24	100.0

[1]Economic Almanac, 1962, page 444.

Montana's cost of state and local governmental services is above the national average. Education in Montana is receiving slightly less than the national average percentage-wise, but more per capita in dollars.

3. How much personal income is behind each elementary and secondary school student?

What effort is exerted as measured by public school revenue from state and local sources as a percent of personal income?

TABLE 15

Ability and Effort to Support Education (for 1960)

	Personal Income Per Pupil Enrolled[1]		Percent of Personal Income for Public Schools[2]	
	Amount	National Rank	Amount	National
California	$12,069	11	3.8	25
Nevada	11,330	15	3.2	44
Washington	10,379	19	4.5	11
Oregon	9,959	22	4.5	10
Colorado	9,925	23	4.4	13
Montana	**9,306**	**26**	**5.0**	**3**
Wyoming	9,037	31	4.6	8
Arizona	8,171	34	4.4	12
New Mexico	7,216	39	4.1	15
Idaho	7,172	40	4.0	17
Utah	6,980	42	5.5	1
NATION	$10,670		3.7	

[1]N.E.A. Research Bulletin, Feb., 1962, page 12.
[2]"Rankings of the States, 1962", page 54, Research Division of N.E.A.

If ability to support education can be properly measured by personal income per pupil enrolled, Montana and the West rate average in the nation. The West exerts greater effort than the nation in supporting public education. While on the one hand statistics (per pupil expenditure or teacher salary) indicate Montana is falling behind, Montanans are also exerting greater effort than citizens of forty-seven states. Among the causes are a smaller than national average percentage in the wage-earning group, a financial penalty in operating costs for sparsity, perhaps a failure to adopt a more efficient school district administrative structure and a moderate increase in per capita personal income in the past decade.

Methods Of Financing Education

Montana has chosen a policy of providing a relatively smaller percentage of school revenue from state sources than used by the nation or the other Western states. A low level of state support is usually associated with a major dependence on the local property tax and difficulty in equalizing educational opportunity throughout the state.

The plan developed in 1949 does not meet the needs of 1962. The 25 mill basic levy (county and district) no longer supplies enough funds to support a realistic schedule with the present level of state support.

TABLE 16

Montana's Taxable Valuation of All Property Related to Public School Enrollment and Foundation Program Costs[1]

Year	Taxable Value	Original Enrollment	Foundation Program	Taxable Value Per Enrollee	25 Mills Statewide As a % of Fnd. Prog.
1949	$455,322,253	103,645	$20,540,962	$4,393	55.4
1950	459,303,967	105,427	21,232,759	4,357	54.1
1951	492,416,991	107,083	21,394,304	4,598	57.5
1952	530,115,803	110,974	21,623,797	4,776	61.3
1953	538,724,971	116,188	24,268,277	4,637	55.5
1954	553,430,951	119,911	25,386,582	4,615	54.5
1955	586,407,846	125,644	27,656,161	4,667	53.0
1956	619,207,119	130,375	28,523,207	4,749	54.3
1957	639,537,228	133,513	32,706,770	4,790	48.9
1958	664,575,928	137,770	33,709,801	4,824	49.3
1959	673,197,115	141,681	35,966,011	4,751	46.8
1960	691,646,680	147,346	37,200,615	4,694	46.5
1961	690,775,883	151,025	39,552,025	4,574	43.7
% of Change 1949 to 1961	Plus 51.7	Plus 45.7	Plus 92.6	Plus 4.1	Minus 21.1

[1]Developed from data obtained from Montana State Board of Equalization, State Department of Public Instruction and the Research Record.

The state's increase in taxable valuation has paralleled the school enrollment increase; but only 4% remains to pay for improved educational services and the rise in cost of the same quality of services in the 1949-62 period. Either a greater dependence on state support or an increase in the basic county levy is needed.

It should also be borne in mind that the Foundation Program financed about 81% of the general fund budget in 1949, while this had declined to about 68% in 1961. In other words, the 25 mill basic levy has declined in ability to support a foundation program which itself is financing a smaller part of the general fund budgets of Montana's public elementary and secondary schools.

TABLE 17

Comparative Tax Structures of the Western States, 1960[1]
(Percentage Distribution of Major Sources of State and Local Tax Revenue)

State	Property Tax	Sales Tax		Income Tax		Misc. Taxes
		General	Selective	Individual	Corporation	
Arizona	48.52	24.34	15.35	3.79	2.59	5.41
California	51.40	17.38	13.92	5.98	5.84	5.48
Colorado	53.49	12.83	12.91	8.83	2.74	9.20
Idaho	47.04	——	19.27	16.10	4.61	12.98
Montana	59.30	——	20.82	7.43	3.24	9.21
Nevada	40.29	18.51	29.63	——	——	11.57
New Mexico	26.57	26.15	21.82	4.54	——	20.92
Oregon	46.90	——	11.48	24.15	5.73	11.74
Utah	45.15	18.24	15.61	9.34	3.26	8.40
Washington	31.17	42.18	18.87	——	——	7.78
Wyoming	54.33	16.15	15.43	——	——	14.09
AVERAGE FOR NATION	48.42	12.75	18.35	6.56	3.50	10.42

[1]U. S. Dep't. of Commerce Reports, G-SF 60-No. 3 & G-GF 60 No. 2.

A summary of comparative tax structures for the western states provides information on what other states are doing to support all governmental services at state and local levels.

Selective sales taxes include motor fuels, tobacco, insurance, liquor taxes, public utilities, miscellaneous. Miscellaneous taxes include various license taxes, severance taxes, death and gift taxes, etc.

Montana places greatest dependence of any Western state on the property tax. In the nation, Montana ranks fifth on percent of state and local revenue from this source.

On the other hand, Washington has placed greatest reliance on the general sales tax in the West; nationally, they rank second.

Oregon places more reliance on the income tax than any other Western state; nationally, they rank third.

When public school revenue from federal, state adn local sources is considered for the Western states, Montana ranks second in dependence on the local level.

TABLE 18

Percentage Distribution of Public School Revenue Receipts from Federal, State and Local Sources, 1961-62[1]

State	Percentage		
	Federal	State	Local
Arizona	7.9	39.5	52.6
California	3.2	38.6	58.2
Colorado	5.3	20.6	74.1
Idaho	6.2	31.9	61.9
Montana	3.8	26.8	69.4
Nevada	7.8	54.6	37.6
New Mexico	12.5	74.9	12.6
Oregon	4.4	31.0	64.6
Utah	4.2	46.9	48.9
Washington	5.0	61.6	33.4
Wyoming	2.7	44.1	53.2
The NATION	3.7	40.2	56.1

[1]"Rankings of the States, 1962", pages 47-48, N.E.A.

There have been changes in the last forty years in the relative property tax values by classifications. The Nineteenth Biennial Report of the State Board of Equalization reported these:

TABLE 19

Montana Taxable Valuations—1923-1960
As Related to 1923 Taxable Values

	(In Percentages)			
	Farm Land	Livestock	Utilities	All Other
1923	100.00	100.00	100.00	100.00
1928	86.09	117.38	97.91	90.24
1933	60.47	65.11	93.09	73.36
1938	47.09	59.51	84.83	84.64
1943	44.96	140.44	85.95	85.88
1948	48.45	175.24	93.02	116.25
1953	49.73	254.31	102.80	170.72
1958	53.83	179.50	122.87	235.84
1960	55.54	205.76	115.97	251.67

Many are concerned with the sources of the property tax dollar. Taxable valuation of property for a twenty-five year period indicates the changes which have taken place in our tax base during that period.

TABLE 20

Taxable Valuation of Montana Property[1]

	(In Percent of the Total)		
	1936	1946	1960
Farm Lands and Improvements	30.83	25.03	17.93
Other Real Estate and Improvements (timber lands, mining claims, industrial sites)	4.69	4.24	3.93
City & Town Lots & Improvements	17.88	18.38	20.97
ALL REAL ESTATE AND IMPROVEMENTS	53.40	47.65	42.83
Public Utilities	29.24	28.08	19.05
Net Proceeds of Mines	2.94	1.95	8.50
Livestock	4.64	8.51	5.82
Personal Property	9.78	13.81	23.80
	100.00	100.00	100.00

[1]Nineteenth Biennial Report, State Board of Equalization, p. 14.

A 1956 study of ratios of taxable values to sales price of real property indicated that Montana, at that time, ranked lowest in the Western states, and nationally, next to the lowest on the ratio of taxable value to sales price.[2] This was due to two factors: a classification law which uses a varying percentage of assessed value and a policy of assessing property at a fractional amount of true value. As a result, millage levies are high and inequities in assessments are more likely.

As a result of legislative action in 1957 a major five-year reclassification is being completed this year. Improvements are being made under the leadership of the State Board of Equalization. Since Montana places heavy reliance on property taxes as a revenue source and since the present finance program bases its measure of effort on the yield from a property tax, equity in assessment practices between and within counties is fundamental.

TABLE 21

Data on the Western States Acting as Collection Agencies for the Local Government[1] (in Thousands of Dollars)

State	State Revenue*	State Aid to Local Government	% of St. Fds. Distributed to Local Gov't.
Arizona	$ 166,320	$ 79,587	47.9
California	2,145,321	1,454,643	67.8
Colorado	193,039	126,526	65.5
Idaho	73,130	27,824	38.0
Montana	69,723	20,403	29.3
Nevada	54,021	17,906	33.0
New Mexico	124,304	70,543	56.8
Oregon	235,520	90,141	38.3
Utah	106,399	44,172	41.5
Washington	480,979	216,326	45.0
Wyoming	42,483	27,413	64.5

[1]Adapted from the M.S.U. Research Record of May, 1962, page 21.

*State revenue is defined as total state tax revenue, less unemployment compensation, plus aid from local government, plus revenue from state enterprises.

Montana ranks lowest in the West in percentage of state revenues returned to the local government.

The property valuation per Average Number Belonging (ANB) is a measure of ability to support education in a state where a property tax is the major source of revenue. State equalization funds are distributed on a basis of need after levying of 5 mill district elementary, 10 mill county elementary and 10 mill county high school levies. Counties range from $20,107 taxable value per ANB to $2,536 taxable value per ANB. When the basic philosophy of equal opportunity and equal effort is considered, the need for support on a broader base than the county is apparent.

[2]Economic Almanac, 1962, page 447.

TABLE 22

Taxable Valuation Per ANB by Counties—1961-62

County	ANB[1]	Taxable[1] Value	T.V. Per ANB	Rank
Beaverhead	1547	$ 8,534,983	$ 5517	28
Big Horn	2312	9,539,673	4126	47
Blaine	1970	8,461,671	4295	45
Broadwater	679	4,577,816	6742	16
Carbon	1991	15,087,805	7578	9
Carter	542	4,282,938	7902	8
Cascade	14560	62,378,172	4284	46
Chouteau	1836	13,677,937	7450	11
Custer	2632	11,461,827	4355	42
Daniels	914	4,573,314	5004	35
Dawson	2914	13,317,791	4570	40
Deer Lodge	2595	14,178,955	5464	29
Fallon	1033	16,241,136	15722	2
Fergus	3215	14,649,177	4557	41
Flathead	7876	25,232,326	3204	53
Gallatin	4857	22,631,035	4659	37
Garfield	460	3,097,019	6733	17
Glacier	2553	12,816,107	5020	34
Golden Valley	305	2,675,848	8773	5
Granite	716	4,479,288	6256	19
Hill	3830	16,586,889	4331	44
Jefferson	880	4,933,953	5607	26
Judith Basin	721	6,929,342	9611	4
Lake	3302	10,656,446	3227	52
Lewis & Clark	5381	24,849,425	4618	39
Liberty	694	5,703,246	8218	6
Lincoln	3151	8,224,153	2610	55
Madison	1107	5,984,473	5406	30
McCone	845	4,444,107	5259	31
Meagher	583	4,161,066	7137	13
Mineral	771	3,136,656	4068	48
Missoula	8867	29,260,813	3300	51
Musselshell	1156	6,997,288	6053	21
Park	2900	11,452,041	3949	49
Petroleum	204	1,613,128	7907	7
Phillips	1359	8,013,735	5897	23
Pondera	2059	11,532,889	5601	27
Powder River	607	3,644,556	6004	22
Powell	1493	7,801,105	5225	33
Prairie	580	4,154,167	7162	12
Ravalli	3082	7,815,509	2536	56
Richland	2608	9,483,588	3636	50
Roosevelt	3064	16,012,605	5226	32
Rosebud	1234	14,785,199	11982	3
Sanders	1558	11,024,849	7076	14
Sheridan	1651	8,068.603	4887	36
Silver Bow	6940	32,094,310	4625	38
Stillwater	1293	8,452,939	6537	18
Sweet Grass	691	5,208,672	7538	10
Teton	1832	10,712,532	5847	25
Toole	1816	11,097,138	6111	20
Treasure	321	2,184,655	6806	15
Valley	3897	12,248,373	3143	54
Wheatland	751	4,426,106	5894	24
Wibaux	423	8,505,180	20107	1
Yellowstone	17399	75,681,319	4350	43

[1]Figures for ANB and Taxable Valuation are from the 1961-62 School Budgets

State School Lands

A Governor's State Land Use Study Committee will report on this topic. Some optimistically believe increases in grazing rentals and in agricultural leases, or liberalizing investment regulations, or additional rentals for oil lands would solve the state financing problem. Interest and Income funds are important and feasible changes will assist, but they do not hold promise for major changes in state support; they now provide slightly more than 10% of the School Foundation Program.

TABLE 23

Revenue From State School Lands—1958-1961[1]

SOURCE	1958	1959	1960	1961
Grazing Rentals	$ 357,817	$ 398,207	$ 673,317	$ 614,607
Agricultural Rentals	1,397,598	1,430,753	1,157,130	1,418,383
Grazing Fees, State Forests	10,108	11,167	15,002	10,316
Interest—Land Sales	228,944	189,770	190,371	236,601
Interest on Bonds and Short-term Certificates	59,890	34,170	57,445	78,718
Interest—Permanent School Fund	891,473	1,039,019	1,203,095	1,259,980
Rentals and Non-Drilling Penalties, Oil and Gas	745,465	938,318	818,862	847,300
TOTAL NET EARNINGS	$3,691,295	$4,041,404	$4,115,222	$4,467,611
Less 5% to Permanent Fund	184,565	202,070	205,761	223,381
TOTAL for Distribution	$3,506,730	$3.839,334	$3,909,461	$4,244,230

[1]M.E.A. School Lands and Funds Committee Report, March, 1962.

III. RECOMMENDED CHANGES

Determination Of Isolation Status

A questionnaire mailed to County Superintendents revealed that 234 elementary schools with eight or less students operated in 1961-62. Of these 216 were declared to be isolated. Although most counties administer the law on isolation (section 75-3617) effectively and equitably, major inconsistencies in administration revealed by the study were:

1. A blanket authorization for isolated status for budgeting for all schools in the county with eight or less students enrolled.

2. Isolation status granted to a school when 40% of the elementary students in the district are already attending another school.

3. Conditions and reasons for authorization of isolated status as spelled out in Montana School law were unknown to some trustees and some budget board members.

4. Isolated status granted a school for budgeting when not a student in attendance was a resident of the district.

5. Inequitable isolated status authorization within a county.

6. No established criterion for authorization.

The School Foundation Study Committee — Sub-Committee for Isolated Schools—confined its study to Section 75-3617, that portion of the School Foundation Program Law governing application for approval of Isolated School Status for budgeting. Our study revealed a weakness in the administration of the law rather than in the law itself. A survey of the counties of the state disclosed a definite need for a common but flexible basis for determining equitable isolated status among the fifty-six varying counties.

To provide an effective and equitable basis for administering Section 75-3617, Montana School Law, we the Sub-Committee, make the following recommendations:

First, that a common application form be used by the trustees in each district to submit their application to the county budget board. A suggested form for an elementary school is attached. A similar form should be developed for the high school.

Second, that Section 75-3617 be amended to read as follows:

Section 75-3617 Governing Application for Approval as Isolated Schools—Montana School Law.

75-3617—Application for Approval as Isolated Schools—Circumstances to be considered in Acting Upon Applications. Before any elem. School having an ANB of NINE (9) or FEWER may be approved as an isolated school, and before any high school having an ANB of twenty-four (24) or less may be approved as an isolated high school, the board of trustees of the district wherein said school is located shall, on or before the first day of May in each year, make written application to the budget board for such approval. NO SCHOOL SHALL BE APPROVED AS AN ISOLATED SCHOOL IF IT FAILS TO MEET THE REQUIREMENTS FOR ISOLATED APPROVAL HEREIN ESTABLISHED. THE REQUIREMENTS SHALL INCLUDE SAID WRITTEN APPLICATION WITH MAJORITY APPROVAL OF THE MEMBERS OF THE BOARD OF TRUSTEES OF THE SCHOOL DISTRICT. SUCH APPLICATION SHALL CONSIST OF FULL AND COMPLETE INFORMATION PERTAINING TO EXISTING CONDITIONS AND SUCH ADDITIONAL INFORMATION AS THE COUNTY SUPERINTENDENT MAY DEEM IMPORTANT TO THE BUDGET BOARD. A COPY OF SAID APPLICATION SHALL BE ATTACHED TO APPROVED BUDGET. Such application shall be acted upon on or before the fifteenth day of June, and such application shall be granted if said budget board shall find and determine that transportation of the pupils of such school to another school is impractical by reason of the existence of obstacles to travel, such as mountains, rivers, poor roads, distance of the pupils' homes from county roads or highways, or the distance of such isolated school from the nearest open school having room and facilities for the pupils of such isolated school; and an elementary school may also be approved as an isolated school upon a finding and determination by said budget board, approved by the county superintendent of schools and by the state superintendent of public instruction of the existence of conditions other than obstacles to travel which would result in unusual hardship to the pupils if they were transported to another school; and if none of the above mentioned circumstances exist, such application shall be denied.

A sample Application follows on next page.

Property Tax

House Resolution No. 5 lists "inequality of valuation and assessment of property among the various counties" as a factor creating inequities in the Foundation Program. The committee did not study this question. The 1957-62 Reclassification Program had not been completed. The State Board of Equalization has been given sufficient authority to obtain a reasonable degree of uniformity.

APPLICATION FOR APPROVAL OF ISOLATED ELEMENTARY SCHOOL

SECTION 75-3617 MONTANA SCHOOL LAW

Based on present year ANB

_____
Date

TO THE_____COUNTY BUDGET BOARD:

We, the undersigned trustees of School Dist. No._____, _____County, hereby make application for Isolated Status for the_____School for the school year 19_____ -- 19_____ because of the reasons listed below.

We are submitting this application for isolated approval in compliance with Section 75-3617, Montana School Law.

1._____ _____ _____
County District No. Name of School

2. Taxable valuation of school district $_____.

3. Number of elementary schools operating in district___.

4. Present enrollment_____. Number of students, grades 1-6, inc._____.

5. Total of last reported school census for the district____ Number of census children 5 years and under_____. Number of census children 6-15, inc._____.

6. How many elementary students of the district are attending another school outside the home district this year?_____If any, why?_____

7. What is the distance of the above named school, by way of a maintained road, to the nearest open school having room and facilities for students?_____

8. Would it be practical to transport students to a centralized school?_____

9. Is the above named school located on an established bus route?_____. Is the bus available to elementary students?_____.

10. Do parents or legal guardians of the students attending the above named school reside in the district?____. If your answer is no, please explain._____

11. Are there conditions other than obstacles to travel which would result in unusual hardship to pupils if they were transported to another school?_____. If your answer is yes, please explain fully._____

12. Include here any additional pertinent information_____

Signed _____
Chairman, Board of Trustees

School District Number_____

Address _____

_____
Trustee

_____
Trustee

_____
Clerk, School District No. ——

APPROVED BY COUNTY BUDGET BOARD, June_____, 19_____.

_____
Chairman, County Budget Board

_____
County Superintendent of Schools

_____
Secretary, County Budget Board

Action subject to approval of state superintendent.

After a five-year statewide effort with State Board of Equalization leadership, it would seem reasonable to conclude that improvements had been made. We would suggest that the Legislative Council review the results after 1963. A continuous program of supervision and study is needed to maintain uniformity.

In order to facilitate such a program of review and supervision on a continuing basis, the committee recommends employment of a qualified tax research analyst by the State Board of Equalization. Qualitative review of Montana's tax laws and tax collections should be made as well as the quantitative type of reporting now available. Property assessment ratio studies, validity of and collections under the corporation license law, payments by out-of-state residents on income, are among the many topics for consideration.

Use Of Minimum And Maximum Expenditure Schedules To Determine The Permissive Budget

House Resolution No. 5 lists as another factor requiring study "the granting of budgeting authority to school districts as a concomitant of increases in foundation program schedules." As the minimum schedule set by the legislature approaches the actual cost of the school program, the amount in dollars of permissive levy also would now increase. Actually, the need for permissive budgeting is greater when the minimum schedule is smaller (expressed as a % of total general fund).

As an alternative to the existing plan of a fixed percentage for the permissive levy the committee recommends a MINIMUM and a MAXIMUM schedule for each size of school. The difference between the two would be the PERMISSIVE. (SEE FIGURE 1).

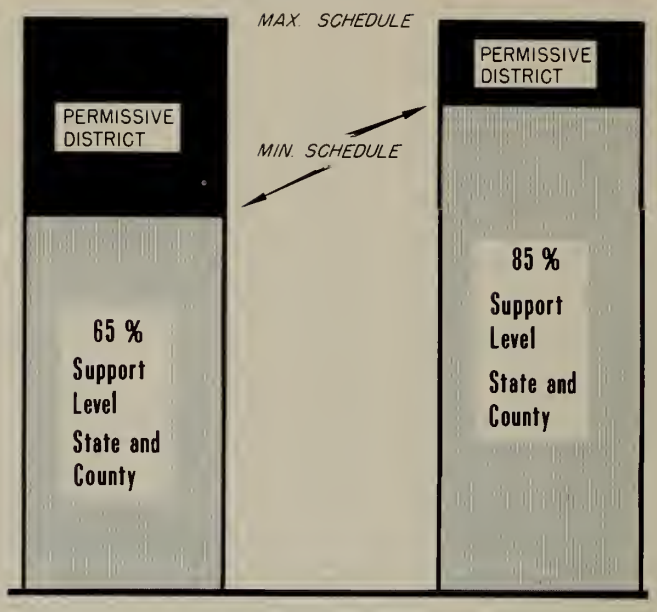
The MINIMUM foundation program schedule is based on providing 75% of the median general fund budgeted expenditure for 1962-63 by size of school categories. This provides support for direct instructional costs (based on median expenditures) which averaged 70.8% of general fund expenditures for 1962-63. The 75% level will lend some support to the costs of administration, library, operation, maintenance, etc.

The schedules recommended are presented on pages 20 and 22.

The committee believes that a MINIMUM support level of 75% to 80% of the median general fund expenditure for each size of school would be a reasonable level for state support. The MAXIMUM (without a vote of the people) would be based on the median general fund expenditures for that size of school.

Under this plan the permissive would vary in relation to need. If the minimum were at the present support level, a larger percentage would be needed by local trustees; if the support level of

FIGURE 1



EFFECT of MAXIMUM-MINIMUM SCHEDULES on PERMISSIVE FUNDS at TWO LEVELS of SUPPORT.

A higher level of state support program reduces the need for permissive budgeting.

foundation program to general fund expenditures were increased to 85%, for example, a much smaller permissive levy would be adequate. As the MINIMUM is increased the PERMISSIVE is decreased under this proposal. The PERMISSIVE is used as needs are determined by TRUSTEES.

Since median general fund costs are used to determine the maximum schedule, it would still be necessary for half of the schools to go beyond the permissive funds to support the desired program. This would be done through voted special levies. It is justified on the basis that schools desiring programs beyond the median level for that size of school should do so by vote of the people.

Elimination Of State Deficiencies In The Foundation Program

House Resolution No. 5 listed as a problem area, "the failure of the state to provide sufficient money to meet its full share of the foundation program, resulting in the imposition of 'state deficiency' levies." There is general agreement in the committee, and from all groups appearing before the committee, that this should be corrected.

The legislative appropriations have not matched the needs as determined by schedules and enrollments, except in those years when rentals on oil lands temporarily increased Interest and Income fund distributions. Some felt in 1949 that the mechanics of the Foundation Program would force the state to meet its obligation. However, increasing demands for state support have out-

stripped available revenues. The deficiency $1,867,000 in 1961-62) is an obligation of the local district and is met by a property tax levy on that district. Equalization is hindered, because there are far greater differences in ability to support education among districts than among counties.

The committee suggests these possible solutions:

1. Provide a major increase in state equalization funds to eliminate state deficiencies as well as to finance other changes suggested in the report.

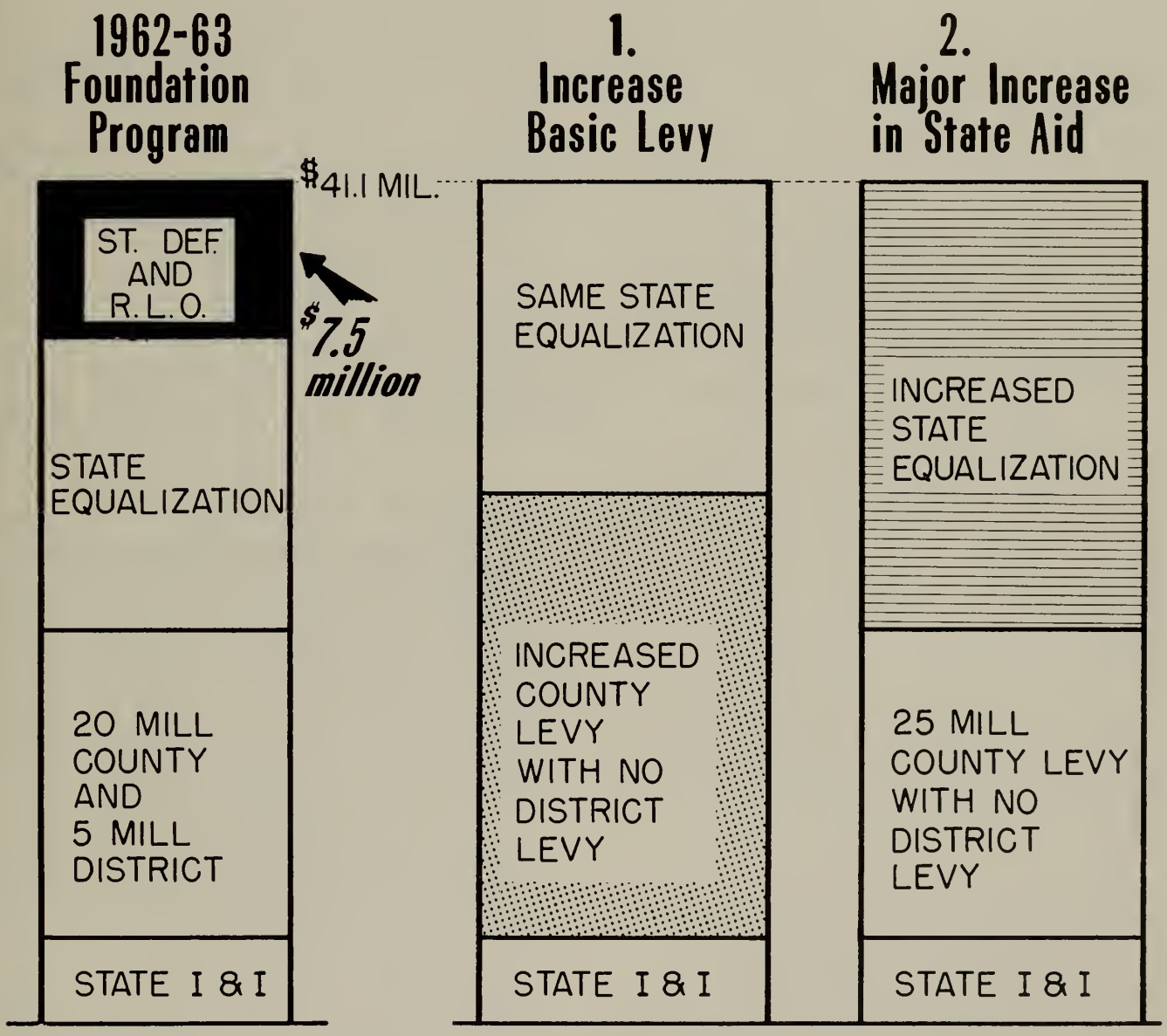
OR

2. Change the mechanics of the Foundation Program (as explained elsewhere in the report) to eliminate the deficiency through a county-wide base for the balance needed after state effort. (SEE FIGURE 2).

Either of these would do more than eliminate the state deficiencies. Remaining local obligation levies could also be eliminated. Financing would permit development of a more realistic minimum schedule and enable budgeting to be on an estimated current enrollment basis.

The deficiency levies are producing major inequities in millages required for support of the minimum Foundation Program. (See TABLE 27).

FIGURE 2


1962-63 Foundation Program
1. Increase Basic Levy
2. Major Increase in State Aid
$41.1 MIL.
ST. DEF. AND R.L.O.
$7.5 million
STATE EQUALIZATION
20 MILL COUNTY AND 5 MILL DISTRICT
STATE I & I
SAME STATE EQUALIZATION
INCREASED COUNTY LEVY WITH NO DISTRICT LEVY
STATE I & I
INCREASED STATE EQUALIZATION
25 MILL COUNTY LEVY WITH NO DISTRICT LEVY
STATE I & I

THE FOUNDATION PROGRAM and DEFICIENCIES

State deficiency levies and Remaining Local Obligation levies (on local district) can be eliminated by broadening the tax base through a larger basic county levy, a major increase in state equalization funds, or by a combination of these.

Adjustment Of Budgets To Current Enrollment

House Resolution No. 5 listed as a problem in the present Foundation Program, "the absence of appropriate provisions which would permit adjustment for anticipated enrollment changes in determining entitlement under the program." There is general agreement that an improvement is needed. A budget based on last year's enrollment is entirely inadequate for a rapidly growing school, satisfactory where enrollment is static and overly generous where enrollment is in sharp decline.

The committee recommends that the Average Number Belonging for the current year's budgeting be based on a projection of enrollment developed from the three previous years' A.N.B. Schools now receive an operating budget based on last year's enrollment.

As an example of the need for adjustment and the method recommended, statistics were obtained from the Great Falls school district. While the actual ANB for 1962-63 cannot be determined yet, increases in enrollment over the same date in September last year are available. These show:

Grades 1- 8—increase of 1,032
Grades 9-12—increase of 623

The school administration had estimated a total increase of approximately 1,500. But budgeting for these had to be by special levy since last year's A.N.B. was the basis for this year's school operating budget. Using the committee's recommended plan for Great Falls:

TABLE 24

School Year	Grades 1-8 A.N.B.	Grades 1-8 Change Over Previous Year	Grades 9-12 A.N.B.	Grades 9-12 Change Over Previous Year
1959-60	9,122	——	2,398	——
1960-61	10,152	+1,030	2,613	+215
1961-62	11,299	+1,147	3,035	+422
Avg. Change	——	+1,089	——	+319
1962-63 Estimate	12,388	——	3,354	——

The estimate, which would be used for the current budget, is obtained by applying the average change to the 1961-62 A.N.B. (Table 24). The result would more nearly approximate the actual need in terms of students to be educated.

Elimination Of The 50% Limit On State Participation In The Foundation Program In Any District

House Resolution No. 5 listed as a problem, "the 50% limitation on state participation in the foundation program, which, as the program now operates, deprives many school districts of the benefits which should result from a state equalization level of 100%." The committee and most groups appearing before the committee favored elimination of the 50% limit on state support.

In 1949 this was added to the Foundation Program as a compromise. Although many were concerned with inequalities in classification and assessment, concerted state action was not ordered by the legislature until more recent sessions. Others believed that the matching principle required local effort equal to state effort; actually, this ignored local effort in the permissive and voted areas of school support.

The 50% limit defeats equalization since this places greater reliance on property tax at the district level. A penalty is placed on those districts less able to support an adequate educational program on a property tax base. In 1961-62 this Remaining Local Obligation was $3,949,000—an increase of 543% over the amount required due to the 50% limitation in 1949-50. It has become a serious problem in the mechanics of the existing program; more than half of the districts operating schools were affected last school year.

If this limitation were removed, the Remaining Local Obligation would be an additional state deficiency unless one of the suggestions given in the section on State Deficiencies were adopted.

A major increase in state support is needed using the existing Foundation Program; OR change the mechanics of the present plan providing for a basic county levy varying with the amount of state aid and the schedule.

The classroom unit assistance fund, a temporary expediency for allocating funds to the schools, should not be continued. This money should be used in the state equalization fund.

Enactment Of More Realistic Foundation Program Schedules

House Resolution No. 5 posed as another problem, "schedules in the foundation program which do not fairly take into account the relative costs of education in schools in various enrollment categories." A realistic schedule which is fair to all sizes of schools is an accepted goal. At present the schedules in the Foundation Program often do not provide enough to pay teachers' salaries. The average Foundation Program support level in 1962-63 is 66% of the general fund budgets.

The subcommittee studying the minimum educational program for accreditation reported that 80% of the school program they recommended could be considered as basic education (see pages 22, 23 and should be underwritten by the state support program.

A study of instructional costs (See TABLES 25 and 26) indicates that 70% of general fund budgets is spent, on the average, for instructional costs (Series 200 of the budget.) Instruction includes principals' salaries, teachers' salaries, textbooks and teaching supplies. The smallest and

largest elementary schools use about 5% more than the average for instructional costs; elementary schools of 51 to 100 and the smallest high schools allocated a smaller percentage of their budgets to instructional costs.

Schedules could have been developed on the Instructional costs alone. However, the subcommittee working on schedules felt that a 75% support level based on median general fund expenditures by size of schools would be most satisfactory. Instructional costs would be met and a small amount would be available for other operational expenditures. The use of medians minimizes the effect that high or low cost schools would have on means (averages).

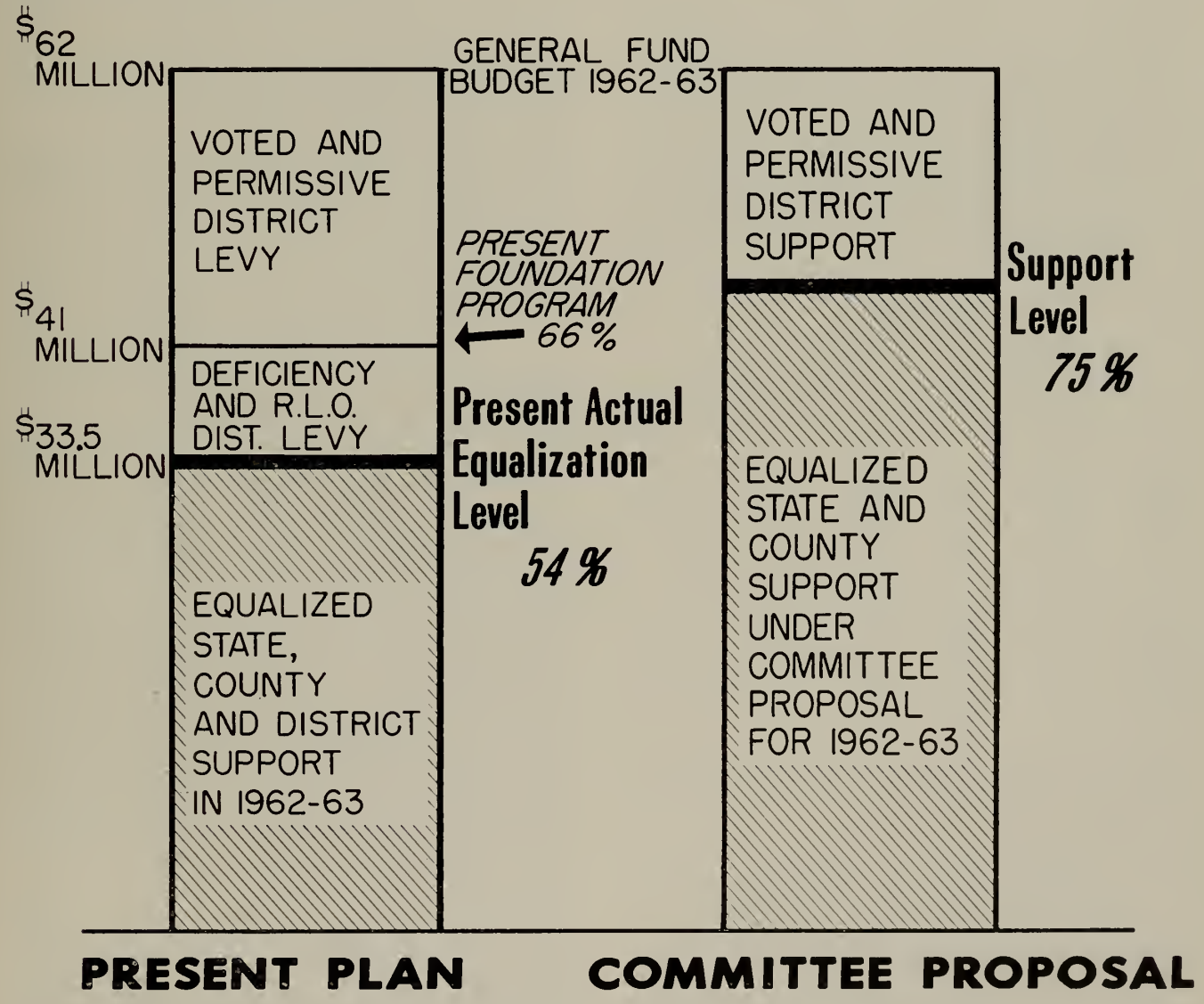
Maximum schedules would be periodically revised by the State Department of Public Instruction on the basis of expenditure reports prepared by the Department. The legislature would determine the minimum schedule by setting the support level at 75% or some other percentage. The schedule would be based on support for common educational services in median expenditure schools. (See Figure 3).

The committee presents the following tables on instructional costs and proposed maximum and minimum schedules.

FIGURE 3

GENERAL FUND EXPENDITURES—1962-63

The basic principle of equality of effort is defeated by a program in which the schedule is too low with high voted and permissive levies as a result; and with deficiencies (STATE and R.L.O.) which further increase inequities through added dependence on district levies.



The actual voted and permissive amount shown on the present plan includes most of the classroom unit assistance fund.

TABLE 25

Montana Public Elementary Schools:
Median Costs for Instructional Purposes
and for General Fund Budgeted Expenditures per
ANB (1961-62) for the Year 1962-63

Enrollment ANB (1961-62)	Median Classroom Unit Enrollment	Median Instr. Cost Per ANB	Median GFB Expenditure Per ANB	Percent IC/GFB	Number of Districts
1– 25	9	$440	$590	74.6	455
26– 50	14	290	425	68.2	94
51–100	19	260	420	61.9	81
101–200	21	255	380	67.1	61
201–300	25	230	335	68.7	32
301–500	25	225	320	70.3	25
501 & Over	25	$245	$330	74.2	34
					782

DEFINITIONS:

ANB—The average number belonging during the preceding school year

Median Classroom Unit Enrollment—Obtained by dividing the ANB by the classroom units budgeted for in 1962-63

Median Instructional Cost (IC)—Instructional costs include budgeted expenditures for principals' salaries, teachers' salaries, clerical salaries related to instruction, textbooks, teaching supplies and other expenses for instruction

General Fund Budget Expenditures (GFB)—GFB costs include instruction costs plus costs for administration, library services, health services, attendance services, operation of plant, maintenance of plant, any district appropriation for hot lunches, student body and auxiliary service, rentals, insurance, social security taxes, interest on warrants and capital outlay other than that from bonds; additions to reserves are excluded.

TABLE 26

Montana Public High Schools:
Median Costs for Instructional Purposes
and for General Fund Budgeted Expenditures per
ANB (1961-62) for the Year 1962-63

Enrollment ANB (1961-62)	Median Classroom Unit Enrollment	Median Instr. Cost Per ANB	Median GFB Expenditure Per ANB	Percent IC/GFB	Number of Districts
40 & Under	8	$635	$1090	58.3	29
41–100	12	485	740	65.5	57
101–200	17	350	540	64.8	42
201–300	21	320	480	66.7	11
301–900	22	315	450	70.0	23
901 & Over	24	$325	$ 475	68.4	6
					168

Definitions: See Table 25.

MONTANA PUBLIC SCHOOLS

Foundation Program Schedules Based on Median Costs and Equalling Approximately 75 Percent of Median General Fund Expenditures by School Size

An Act to Amend Section 75-3612 of the Revised Codes of Montana, 1947, as Amended by Chapter 241, Laws of 1955, Chapter 251, Laws of 1957, Chapter 267, Laws of 1959 and Chapter 250, Laws of 1961, Providing for the Equalization of Financial Distribution for All Elementary and Secondary Schools in Order to Maintain a Uniform System of Free Public Schools; Providing Schedules for Determining Support of Foundation Financial Program for Public Elementary and Secondary Schools, and for Other Purposes, and Containing a Repealing Clause and Effective Date.

Be it enacted by the Legislative Assembly of the State of Montana:

Section 1. That section 75-3612, Revised Codes of Montana, 1947, as amended by chapter 241, laws of 1955, chapter 251, laws of 1957, chapter 267, laws of 1959 and chapter 250, laws of 1961, be, and the same hereby amended to read as follows:

75-3612. Foundation program. The moneys coming into said state public school equalization fund shall be distributed and apportioned to provide an annual minimum operating revenue for the elementary and high schools in each county, exclusive of revenues required for debt retirement, and for the payment of any and all costs and expense incurred in connection with any adult education program, kindergarten, recreation program, school lunch and cafeteria program, new buildings, new grounds, and transportation, in accordance with the following schedules:

ELEMENTARY SCHOOLS

(1) For each elementary school having an ANB of nine (9) or fewer pupils, the district shall receive **thirty-nine hundred eighty-five dollars** ($3985.00), if said school is approved as an isolated school; if said school is not approved as an isolated school, then it shall receive **nineteen hundred ninety-three dollars** ($1993.00).

(2) Schools with an ANB of ten (10) pupils, but less than eighteen (18) pupils, shall receive **thirty-nine hundred eighty-five dollars** ($3985.00) plus **one hundred twenty dollars** ($120.00) per pupil on the basis of the average number belonging over nine (9).

(3) Schools with an ANB of eighteen (18) pupils and employing one teacher shall receive **fifty hundred sixty-five dollars** ($5065.00) plus **fifty dollars** ($50.00) per pupil on the basis of the average number belonging over eighteen (18), not to exceed an ANB over twenty-five (25).

(4) Schools with an ANB of eighteen (18) pupils and employing two full-time teachers shall receive **ninety hundred fifty dollars** ($9050.00) plus **fifty dollars** ($50.00) per pupil on the basis of the average number belonging over eighteen (18), not to exceed an ANB over fifty (50).

(5) Schools having an ANB in excess of forty (40) will be guaranteed funds only on the basis of the total pupils (ANB) in the district for elementary pupils as follows:

For a school having an ANB of more than forty (40), and employing a minimum of three (3) teachers, the maximum of **three hundred twenty dollars** ($320.00) shall be decreased at the rate of **twenty-five cents** ($0.25) for each additional pupil until the total number (ANB) shall have reached a total of one hundred (100) pupils. For a school having an ANB of more than one hundred (100) pupils, the maximum of **three hundred five dollars** ($305.00) shall be decreased at the rate of **twenty-nine cents** ($0.29) for each additional pupil until the ANB shall have reached three hundred (300) pupils. For a school having an ANB of more than three hundred (300) pupils, the maximum shall not exceed **two hundred forty-seven dollars** ($247.00) for each pupil: provided that the maximum per pupil, for all pupils, ANB, shall figure on the basis of the amount allowed herein on account of the last eligible pupil. ANB, and provided further that all schools operated within the incorporated limits of a city or town shall be treated as a school unit for the purpose of this schedule.

HIGH SCHOOL

(1) For each high school having an ANB of twenty-four (24) or fewer pupils the district shall receive **nineteen thousand one hundred thirty dollars** ($19,130.00). High schools shall not receive state equalization aid unless they have been accredited by the state board of education, and if a high school having an ANB of twenty-four (24) or

less for three (3) consecutive years is not approved as an isolated high school, then it shall not receive state equalization aid.

(2) For a secondary school having an ANB of more than twenty-four (24) pupils, the maximum **seven hundred ninety-seven dollars** ($797.00) shall be decreased at the rate of **five dollars and twenty-five cents** ($5.25) for each additional pupil until the ANB shall have reached a total of forty (40) such pupils. For a school having an ANB of more than forty (40) pupils, the maximum of **seven hundred thirteen dollars** ($713.00) shall be decreased at the rate of **three dollars and fifty-seven cents** ($3.57) for each additional pupil until the ANB shall have reached one hundred (100) pupils. For a school having an ANB of more than one hundred (100) pupils, a maximum of **four hundred ninety-nine dollars** ($499.00) shall be decreased at the rate of **one dollar and seventeen cents** ($1.17) for each additional pupil until the ANB shall have reached two hundred (200) pupils. For a school having an ANB of more than two hundred (200) pupils, the maximum of **three hundred eighty-two dollars** ($382.00) shall be decreased by **twenty-five cents** ($0.25) for each additional pupil until the ANB shall have reached three hundred (300) pupils. For a school having an ANB of more than three hundred (300) pupils, the maximum of **three hundred fifty-seven dollars** ($357.00) shall be decreased at the rate of **six cents** ($0.06) until the ANB shall have reached six hundred (600) pupils. School having an ANB in excess of six hundred (600) pupils shall receive **three hundred thirty-nine dollars** ($339.00) per pupil.

The maximum per pupil for all pupils (ANB) and for all schools shall be computed on the basis of the amount allowed herein on account of the last eligible pupil, ANB.

In computing the amount guaranteed for the foundation program, only junior high schools which have been approved and accredited by the state board of education shall be considered a part of the secondary enrollment.

Section 2. All acts and parts of acts in conflict herewith are hereby repealed.

Section 3. This act shall be in full force and effect from and after the first day of July, 1963.

Maximum Permissive Budget Schedules Based on Median Costs for General Fund Budget Expenditures of 1962-63

An Act to Amend Section 75-1713.1 of the Revised Codes of Montana, 1947, as Amended by Chapter 199, Laws of 1949, and Chapter 208, Laws of 1951, Providing for Additional Expense Over the Foundation Program to be Included in the Budget of any District and Containing a Repealing Clause and Effective Date.

75-1713.1 **Changes in budget by budget board when in excess of foundation program—restrictions on budgets.** If the total amount of the proposed elementary general fund expenses in the preliminary budget of any district shall exceed the foundation program of such district, the budget board shall, in the manner and subject to the limitations prescribed by section 75-1713, reduce such proposed general fund expenses to a total equal to said foundation program unless the board of trustees of said district shall establish to the satisfaction of the budget board that special circumstances exist which justify such additional expenses, and in such event a statement of the reasons for the allowance of such additional expenses shall be attached to said budget and signed by the chairman of the budget board, but the entire amount of such excess expense over the foundation program shall be paid solely from levies upon the property in such district and shall not in any manner increase the amounts to be apportioned hereunder from the county common school levy or from the state public school equalization fund; and provided, that, except in the case of the existence of the emergencies specified in section 75-1716, the entire amount of such additional expense over the foundation program plus the foundation program to be included in the budget of any district shall not be greater than the maximum amounts in accordance with the following schedules, provided that nothing herein contained shall be construed as preventing the voting of an additional levy in accordance with the general school laws pertaining to the voting of additional levies.

ELEMENTARY SCHOOLS

(1) For each elementary school having an ANB of nine (9) or fewer pupils, the maximum shall be **fifty-three hundred twelve dollars** ($5312.00), if said school is approved as an isolated school; if said school is not approved as an isolated school, then the maximum shall be **twenty-six hundred fifty-six dollars** ($2656.00).

(2) For schools with an ANB of ten (10) pupils, but less than eighteen (18) pupils, the maximum shall be **fifty-three hundred twelve dollars** ($5312.00) plus **one hundred fifty-six dollars** ($156.00) per pupil on the basis of the average number belonging over nine (9).

(3) For schools with an ANB of eighteen (18) pupils and employing one teacher, the maximum shall be **sixty-seven hundred sixteen dollars** ($6716.00) plus **sixty-two dollars and fifty cents** ($62.50) per pupil on the basis of the average number belonging over eighteen (18), not to exceed an ANB over twenty-five (25).

(4) For schools with an ANB of eighteen (18) pupils and employing two full-time teachers, the maximum shall be **twelve thousand sixty-two dollars** ($12,062.00) plus **sixty-two dollars and fifty cents** ($62.50) per pupil on the basis of the average number belonging over eighteen (18), not to exceed an ANB over fifty (50).

(5) For schools having an ANB in excess of forty (40) the maximum on the basis of the total pupils (ANB) in the district for elementary pupils will be as follows:

For a school having an ANB of more than forty (40), and employing a minimum of three (3) teachers, the maximum of **four hundred twenty-five dollars** ($425.00) shall be decreased at the rate of **thirty-two cents** ($0.32) for each additional pupil until the total number (ANB) shall have reached a total of one hundred (100) pupils. For a school having an ANB of more than one hundred (100) pupils, the maximum of **four hundred six dollars** ($406.00) shall be decreased at the rate of **thirty-eight cents** ($0.38) for each additional pupil until the ANB shall havea reached three hundred (300) pupils. For a school having an ANB of more than three hundred (300) pupils, the maximum shall not exceed **three hundred thirty dollars** ($330.00) for each pupil; provided that the maximum per pupils, for all pupils, ANB, shall figure on the basis of the amount allowed herein on account of the last eligible pupil, ANB, and provided further that all schools operated within the incorporated limits of a city or town shall be treated as a school unit for the purpose of this schedule.

The maximum per pupil for all pupils (ANB) and for all schools shall be computed on the basis of the amount allowed herein on account of the last eligible pupil, ANB.

Section 2. All acts and parts of acts in conflict herewith are hereby repealed.

Section 3. This act shall be in full force and effect from and after the first day of July, 1963.

An Act to Amend Section 75-4518.1 of the Revised Codes of Montana, 1947, as Amended by Chapter 199, Laws of 1949 and Chapter 208, Laws of 1951, Providing for Additional Expense Over the Foundation Program to be Included in the Budget of any District or County High School and Containing a Repealing Clause and Effective Date.

75-4518.1. **Reduction in budget by budget board—allowance of additional expenses over foundation program.** If the total amount of the proposed general fund expenses in the preliminary budget of any district or county high school shall exceed the foundation program thereof, the budget board shall, in the manner provided by section 75-4518, reduce such proposed general fund expenses to a total equal to said foundation program unless the board of trustees of said district or county high school shall establish to the satisfaction of the budget board that special circumstances exist which justify such additional expenses, and in such event a statement of the reasons for the allowance of such additional expenses shall be attached to said budget and signed by the chairman of the budget board,

but the allowance of such excess expense over the foundation program shall not in any manner increase the amounts to be apportioned hereunder from the state public equalization fund; and provided that, except in the case of the existence of the emergencies specified in section 75-4521, the entire amount of such additional expense over the foundation program to be included in any high school budget including any reserve fund, not to exceed thirty-five per cent (35%) of the amount appropriated in the final and approved budget for the then current school year, for the purpose of maintaining the elementary and high school of the district from July 1 to November 30 of the next succeeding year plus the foundation program shall not be greater than the maximum amounts in accordance with the following schedules, provided that nothing herein contained shall be construed as preventing the voting of an additional levy in accordance with the general school laws pertaining to the voting of additional levies.

HIGH SCHOOLS

(1) For each high school having an ANB of twenty-four (24) or fewer pupils, the maximum shall be **twenty-five thousand five hundred dollars** ($25,500.00).

(2) For a secondary school having an ANB of more than twenty-four (24) pupils, the maximum **ten hundred sixty-two dollars** ($1062.00) shall be decreased at the rate of **seven dollars** ($7.00) for each additional pupil until the ANB shall have reached a total of forty (40) such pupils. For a school having an ANB of more than forty (40) pupils, the maximum of **nine hundred fifty dollars** ($950.00) shall be decreased at the rate of **four dollars and seventy-five cents** ($4.75) for each additional pupil until the ANB shall have reached one hundred (100) pupils. For a school having an ANB of more than one hundred (100) pupils, a maximum of **six hundred sixty-five dollars** ($665.00) shall be decreased at the rate of **one dollar and fifty-five cents** ($1.55) for each additional pupil until the ANB shall have reached two hundred (200) pupils. For a school having an ANB of more than two hundred (200) pupils, the maximum of **five hundred ten dollars** ($510.00) shall be decreased by **thirty-five cents** ($0.35) for each additional pupil until the ANB shall have reached three hundred (300) pupils. For a school having an ANB of more than three hundred (300) pupils, the maximum of **four hundred seventy-five dollars** ($475.00) shall be decreased at the rate of **nine cents** ($0.09) until the ANB shall have reached six hundred (600) pupils. Schools having an ANB in excess of six hundred (600) pupils shall receive **four hundred forty-eight dollars** ($448.00) per pupil.

The maximum per pupil for all pupils (ANB) and for all schools shall be computed on the basis of the amount allowed herein on account of the last eligible pupil, ANB.

In computing the amount guaranteed for the foundation program, only junior high schools which have been approved and accredited by the state board of education shall be considered a part of the secondary enrollment.

Section 2. All acts and parts of acts in conflict herewith are hereby repealed.

Section 3. This act shall be in full force and effect from and after the first day of July, 1963.

Minimum Education Program For Accreditation

The Minimum Education Program for Accreditation Subcommittee submits these recommendations:

To be eligible to share in the Foundation Program of the State of Montana, each Elementary and Secondary school must meet the standards of accreditation set for said school by the State Department of Public Instruction; and shall provide quality instruction in the areas and at the grade levels as required below:

COURSE OF STUDY IN ELEMENTARY SCHOOLS:

Beginning with the first grade:

a. Reading, with a major emphasis on all word analysis skills of which phonics is a part.
b. Writing
c. Spelling
d. Arithmetic, with emphasis on basic principles and techniques; and
e. Physical Education, including Health and Safety.

Beginning no later than the 4th grade:

f. English, as a separate subject with emphasis on thoroughness and grammatical disciplines.
g. Geography, including World and U. S.
h. History, including World and U. S., including Declaration of Independence and Constitution of U. S.

Beginning no later than the 6th grade:

i. Civics in relation to local, state and national governments
j. Natural History and Science.

Beginning with grade 7 or 8:

k. A comprehensive course in Montana History and Geography.

We understand the above to be the basic subjects to which shall be devoted 80% of each school week. The remaining 20% of school time may be spent in enrichment areas, such as music, art, foreign languages, etc. This statement shall apply to all grades 1-8, regardless of the type of organization.

COURSE OF STUDY IN SECONDARY SCHOOLS:

To promote assurance that graduates desiring higher education will be academically prepared, and that graduates for whom high school is the final formal education will be responsible, self-supporting citizens, the Subcommittee members recommend a "two-diploma" system—College Preparatory and General. These two areas of instruction shall be offered whether or not separate diplomas are utilized.

The College Preparatory course shall consist of at least a six-hour day and shall include instruction in the following courses:

a. 4 years English, including emphasis on composition and grammar.
b. 2 years Science, which shall be in specific fields such as biology, chemistry, and physics, not the course commonly termed, "general".
c. 2 years Math—algebra, geometry, and/or advanced math.
d. 2 years of Foreign Language.
e. 1 year of World History.
f. 1 year of American History.
g. ½ year of American Government.

h. 2 years of Health & Physical Education, ½ credit each year. Students participating in organized athletic programs may be exempted from PE, but not from health.

The school must offer the above courses but all are not mandatory for every student. For example, foreign language must be available, but it is not required for all in the college preparatory program.

Added electives to complete a total of 16 units necessary for graduation shall be offered. Such electives, to be designated by local Board of Education, shall have an economically efficient enrollment to equal at least 80% of the pupil-teacher ratio of the school in high schools under 251 enrollment; and 90% of the teacher-pupil ratio in schools of 251 enrollment or higher. Classes meeting this standard should be considered as a part of the basic program.

The General Course shall consist of at least a six-hour day and shall include instruction in the following courses:

a. 4 years of English, including emphasis on composition and grammar.
b. 1 year of Math, which may be general.
c. 1 year of Science, which may be general.
d. 1 year of American History.
e. ½ year of American Government.
f. 2 years of Health & Physical Education, ½ credit each year. Students participating in organized athletic programs may be exempted from PE, but not from Health.

Additional electives are required to complete a total of 16 units necessary for graduation. Such electives, to be designated by local Board of Education, shall have an economically efficient enrollment at least equal to 80% of the pupil-teacher ratio of the school in high school under 251 enrollment; and 90% of the teacher-pupil ratio in schools of 251 enrollment or higher. Classes meeting this standard should be considered as a part of the basic program.

This Subcommittee recommends that in areas accessible to a state-supported vocational school, if any, vocational subjects be removed from the Foundation Program.

The application of these criteria for basic courses in high school was tested in a sampling of ten Montana high schools, ranging in size from 40 to 1,363. First semester 1962 schedules were analyzed. Classes not listed as required offerings in the college preparatory or general course were checked. The assumption is that students must be in some class. If class enrollment is large enough, the class could be considered as a part of the basic program eligible for state support. It appears from the study that about 80% or more of the classes would qualify as basic offerings, required or electives, under the criteria set forth by the committee. For example, let us assume a high school of 120 students with 8 certified instructional staff. The student-teacher ratio is 15 to 1. Following the suggested criteria electives offered would be part of a basic program if there was an economically efficient enrollment; in this school this would be 12 or more (80% of 15, the student-teacher ratio).

Distribution of State Equalization

The basic 25 mills no longer supports an equivalent amount of the general fund expenditures. Deficiency levies have resulted in large variations in the millage needed to support the minimum program. (See TABLE 27). Inequities violate the basic purpose.

In 1949-50

Total General Fund Budget	$25.3	million
25 mills then raised	11.4	million
% which could be raised by the basic levy	45.1	

In 1962-63

Total General Fund Budget	$62.	million
25 mills on present taxable values raises	$17.3	million
% raised by present basic levy	27.9	

If we were to adjust 1962-63 basic levy to the same percentage of support that was possible in 1949-50:

45.1% of 1962-63 General Fund Budget	28	million
On present taxable valuation, basic levy required	40.4	mills

Failure to adjust basic levy has lessened the equalization factor in the foundation program.

In 1949-50

Total General Fund Budget	$25.3	million
State aid then was	7.8	million
% raised by state aid	30.8	

In 1962-63

Total General Fund Budget	$62	million
State aid this year	19	million
% raised by state aid	30.6	

State aid has been maintained at a relatively constant percentage of the total general fund but the basic levy has not been changed, and this provides a smaller percentage of the general fund budgets. **If the state wants to maintain the 1949 pattern of support the basic levy must be increased from 25 mills to approximately 40 mills. Actually, the effect of state deficiency and remaining local obligation levies results in a very uneven pattern in levies needed to support the Foundation Program.**

The alternative is to have the state assume a larger percentage of support, increasing state aid through a major added tax source other than property.

TABLE 27

Budget Millage Required for Support of Foundation Program, Elementary and High School Operating Districts—1962-63
(This includes 5-mill elementary district, 10-mill county elementary, 10-mill county high school, state deficiency and remaining local obligation levies. In some counties full county or district levies were not required.)

County	Districts at Stated Millages										
	Below 20	20-24.9	25-29.9	30-34.9	35-39.9	40-44.9	45-49.9	50-54.9	55-59.9	60 and Over	County Average
Beaverhead			5	10	1	1					32.50
Big Horn			2	3		1	1				38.90
Blaine			2	8	4	1		2		1	41.10
Broadwater			1	4	1						32.10
Carbon			1	3	11	1					31.70
Carter			2	11	3	2					32.30
Cascade			4	5	14	4	1	1			37.30
Chouteau			8	17	5	1					31.80
Custer			2	11	6						36.60
Daniels				6	3						35.40
Dawson			4	11	9	1					34.40
Deer Lodge				2	2						32.70
Fallon	8	7									18.41
Fergus			2	22	10	6					37.20
Flathead				3	8	8	6	3	3	2	41.00
Gallatin			3	12	7		1				35.30
Garfield				2	8	5	3		1		39.80
Glacier			2	3			1				33.60
Golden Valley			1	4	2						32.20
Granite				2	1			1			32.80
Hill			1	17	3	2					37.50
Jefferson				7	1						33.50
Judith Basin				11							31.70
Lake				2	3	3		1	1	1	41.90
Lewis & Clark			3	7	4						34.40
Liberty			5	7	1						31.40
Lincoln					1	3	4	4	1		50.70
Madison				5	3	1					35.00
McCone			1	8	9						35.40
Meagher			3	4							31.00
Mineral				2	3						37.00
Missoula				5	3	1	5	2	1		42.00
Musselshell			2	3		2					31.30
Park			1	7	7	2	2				40.80
Petroleum				8							32.60
Phillips			3	12	5						33.60
Pondera			7	7	2					1	33.00
Powder River				7	11	1					37.20
Powell			2	6	3	1					33.30
Prairie			1	3							30.60
Ravalli								3	2	3	57.90
Richland				2	8	7	4	1	2		43.50
Roosevelt			2	3	2	1	1	1			35.50
Rosebud		2	6	1						1	26.80
Sanders			2	2	4	1					32.40
Sheridan			1	3	4	6	1			1	37.10
Silver Bow				4		1					34.90
Stillwater			2	7	4	1					33.20
Sweet Grass			4	13	1						32.20
Teton			2	8	4						33.10
Toole			4	10	3						32.50
Treasure				4							32.70
Valley			3	2	1	2	2	1		2	51.49
Wheatland			1	5							32.50
Wibaux	13										17.97
Yellowstone			1	9	6	1	1				34.80
Totals	21	9	96	340	191	67	33	20	11	12	35.90*

*Statewide averagae basic levy for foundation program budgets operating districts.
Joint districts are listed in each county due to the difference in high school levies.

The committee recommends the following plan for distribution of state equalization funds:

After schedules for each size of school have been determined by the legislature, the total cost of the minimum support schedule for the state can be accurately estimated. The legislature has then set a dollar goal on which state and county support would be based. Interest and Income Funds and State Equalization Funds should then be subtracted from the State Minimum Schedule Program. The balance would be raised on a uniform county property levy computed by the State Department of Public Instruction and applied by the county commissioners.

The amount of state school equalization funds paid to each county should be equal to the computed cost of the foundation program for that county, minus: (1) revenues available to that county from the Interest and Income Fund, and (2) yield of the county school tax levy described in the previous paragraph. In the county, funds will be allocated so that each district will have sufficient funds to finance its minimum schedule.

In a following section, dealing with alternatives, examples will be given showing how the plan would work under various levels of support and amounts of state aid.

In this plan there is an obvious relationship between increasing the amount available for State Equalization and the number of mills required for the county levy. In no case can there be a state deficiency or remaining local obligation. The legislature establishes a dollar goal as a limit when it determines the support level on the schedule submitted by the State Department of Public Instruction. The legislature determines policy on governmental level responsibility when it determines the total amount of state aid available. The balance needed would be raised by a uniform county levy. The five-mill district levy would be eliminated. Permissive and voted levies would continue to be a local district obligation.

One problem not resolved by the committee concerns the present millage limitations on permissive levies. The basic levy requires readjustment to provide the same level of support as in 1949. The legislature may also wish to consider adjustments in the millage limits placed in effect in 1949 on permissive funds.

Other Areas Considered

Some of the groups who met with the committee presented other problem areas. Several groups suggested that the Interest and Income funds should not be considered as a state source. This, of course, represents another method of overcoming the inequities resulting from the present 50% limitation on state support of the Foundation Program in any district. The committee opposed this approach. The problem can be solved directly by elimination of the limit, coupled with other suggested improvements as presented in this report.

Social Security should be placed in the retirement fund according to several groups. If the recommendations on minimum and maximum schedules are adopted this is not a serious problem. The The committee opposes further budget fragmentation of operating costs. Actually, we believe there is need for consolidation of the various budgets into a general fund, a school building fund and a debt service fund. However, this was not in the realm of the charge given the committee.

IV ALTERNATIVES IN SUPPORTING THE RECOMMENDATIONS

Price Tags And Alternatives

Tables 28 and 29 have been jointly developed by the Directors of Educational Research at M.S.U. and M.S.C. to provide a basis for consideration of alternatives in financing certain recommendations of the committee. These are elimination of state deficiency levies, elimination of remaining local obligation levies, budgeting on an estimated current enrollment basis and adoption of more realistic schedules. Figures used are approximations.

Adjustment of the basic levy seems to be the key to improvement in the financing of this program. While we have ideally considered 25 mills as the basic levy for support of the Foundation Program, the actual levy is considerably larger. Deficiency levies within the present Foundation Program in 1962-63 amounted to $7,529,795. On a $693,000,000 state taxable value this required an average additional levy of 10.9 mills. But great inequities occur (see TABLE 27) because of the major differences in taxable value per A.N.B. among the state's operating districts. The range of operating district millage levies for support of the 1962-63 Foundation Program was from 16.6 to 77.7 mills. The county averages ranged from 17.97 to 57.9 mills to support the Foundation Program.

TABLE 28

ALTERNATIVES ON FINANCING THE PROGRAM

Assumptions: The general fund budget in 1962-63 was $62 million; the foundation program in 1962-63 was $41.1 million. Assume a 3% yearly cost increase due to enrollment; an additional 3% would be needed to adjust to a current enrollment basis for one year only. Operational costs will remain at the same level. The state taxable valuation will remain at $693,000,000. Improvements recommended in this report are accepted.

1. If a 25 mills county levy is to be the total local support for the minimum programs:

(In Millions of Dollars)

Support Level	Foundation Program 1963-64	Foundation Program 1964-5	BIENNIUM Financial Responsibility County	BIENNIUM Financial Responsibility State
70 percent	$46.0	$47.4	$34.6	$58.8
75 percent	$49.3	$50.8	$34.6	$66.5
80 percent	$52.6	$54.2	$34.6	$72.2

2. If the present biennial level of state support is unchanged and the balance needed is financed by a county-wide levy:

(Foundation Program the Same as in No. 1)
(IN MILLIONS OF DOLLARS)

Support Level	BIENNIAL Financial Responsibility State	BIENNIAL Financial Responsibility County	Annual Basic County Levy (Mills)
70 percent	$37.5	$55.9	40.3 Mills
75 percent	37.5	63.6	45.8 mills
80 percent	37.5	69.3	50.0 mills

3 If the present biennial level of state support is increased* and the balance needed is financed by a county-wide levy:

(Foundation Program the Same as in No. 1)
(IN MILLIONS OF DOLLARS)

Support Level	BIENNIAL Financial Responsibility State	BIENNIAL Financial Responsibility County	Annual Basic County Levy (Mills)
70 percent	$42.5	$50.9	36.7 mills
75 percent	42.5	58.6	42.3 mills
80 percent	42.5	64.3	46.4 mills

*(An increase of $5 million in biennial state aid as suggested by the Governor.)

In these approximations county elementary transportation has been ignored; this actually increases the millage needed slightly. No adjustment has been made for the few counties where the full basic county levy would not be required; amounts involved are small.

Moving to a current enrollment basis will compensate for the rising costs; previously, planning for a 75% support level based on past experience has resulted in a lower actual support level due to rising costs.

For more detailed information on the effects of changing basic levies see the Research Record of May-June, 1962.

TABLE 29

MONTANA PUBLIC SCHOOL FOUNDATION PROGRAM COSTS UNDER STATED CONDITIONS* 1963-65. (In Millions of Dollars)

Biennial State Funds Needed at Various Basic County Levies

	25 Mills	30 Mills	35 Mills	40 Mills
FP/GFB equals 70%	58.8	51.8	44.9	39.0
FP/GFB equals 75%	66.5	59.5	52.6	46.7
FP/GFB equals 80%	72.2	67.2	60.3	54.4

*The same assumptions are used as in TABLE 28.
State Equalization and Interest and Income Funds are consolidated. The flexibility of the program presented is illustrated by the table.

If additional revenue is needed to finance the Foundation Program, these alternatives are suggested:

1. A sales tax with deductions.

2. An adjusted gross non-progressive income tax with deductions, but without exemptions.

OR

3. A change in the basic property tax levy in the Foundation Program.

Any additional new tax should mainly relieve present property tax levies.

There is desire for a better balance in the Montana tax program and more equitable distribution of state aid funds. Certain changes recommended —eliminate deficiency levies—would shift district levies to a broader property base (county) or to a broader tax base (other sources available at state level). Other changes—budget on an estimated current enrollment basis and enact more realistic schedules—would increase the amount needed for the Foundation Program; these could result in less reliance on voted and permissive levies by local districts.

General Retail Sales Tax

The sales tax is paid out of the taxpayer's income based on the part of his income he spends for goods and services to which the tax applies. Montana already has certain sales taxes—liquor, gasoline, tobacco—which contribute to the cost of state government. The usual type is a general retail sales tax; thirty-seven states have this type of tax with rates varying from 1.5% to 4%.

Points in favor of a sales tax:

1. It is easy and cheap to collect.
2. It makes the tax easy to pay (a little at a time).
3. It collects something toward the cost of government from all who enjoy the services and facilities of the state.
4. It collects from transients and tourists who are in the state briefly.
5. **It would provide funds (estimated $19 million yearly) to replace certain property tax levies and finance existing services at a competitive level or new services as authorized by the legislature.**

While the general retail sales tax is regressive, it must be remembered that the income tax is progressive (more is paid percentage-wise by those with higher incomes). By judicious use of the two taxes a balance can be obtained.

If the two taxes are considered together as the tax paid from peoples' income, the desired balance can be obtained by either of two methods:

1. Adjusting the exemptions and rates in the various brackets of the income tax.
2. Allowing a sales tax credit on income tax returns in the nature of a pre-payment of the income tax.

TABLE 30

ESTIMATED SALES TAX REVENUES FOR MONTANA

Based on Colorado, North Dakota, South Dakota, Wyoming—1960-61

	(Figures Given in Thousands of Dollars)				
	Colorado	N. Dakota	S. Dakota	Wyoming	Montana
Population (in thousands) (1)	1,758	634	682	332	678
Personal Income (in millions) (1)	$ 4,079	$ 1,104	$ 1,256	$ 775	$1,368
Per Capita Income (1)	$ 2,320	$ 1,741	$ 1,842	$ 2,334	$2,018
Total Retail Sales (in millions) (2)	$ 2,465.8	$ 819.5	$ 858.6	$ 466.1	$ 918.2
Sales Tax Collections					
Per Capita	$ 29.68	$ 24.74	$ 24.24	$ 35.68	$28.26*
Per $1000 Personal Income	$ 12.79	$ 14.21	$ 13.16	$ 15.29	$13.34*
Per $1000 Retail Sales	$ 21.17	$ 19.14	$ 19.26	$ 25.42	$20.88*
Actual Collections (in thousands) (1)	$52,179	$15,685	$16,534	$11,847	

Total Sales Tax Estimated for Montana	(Thousands of Dollars)
Per Capita Basis (3)	$19,160
Per $1000 Personal Income Basis (3)	$18,249
Per $1000 Retail Sales (3)	$19.172

(1) Source: U. S. Bureau of Census Report, G-SF61-No. 3

(2 Estimated total for 1960 as provided by Tax Foundation, Inc., and adjusted for 1961 by previous growth experience as reported in Survey of Current Business, May, 1961.

(3) Total collections based on experience of four states on per capita basis, per $1000 personal income basis, and per $1000 retail sales basis.

*Estimated for Montana-average of four states.

Colorado, North Dakota, South Dakota and Wyoming each have a 2% sales tax. Broad exclusions common to these states are: agricultural materials, industrial materials, cigarettes, alcoholic beverages and motor fuels.

Proportional Income Tax

This tax, recommended by the Montana Taxation Education Commission Report in 1958, would also raise the necessary revenue for state level financing of the recommended changes. A proportional income tax rate would be applied to the net income (before personal exemptions are taken).

One additional line on the present income tax report would be required. Existing agencies would be utilized in collection. All who earn money would thus have an obligation. Continued effort must be made to have non-residents earning money from operations in Montana pay their equitable share of the income tax.

"Assuming that the annual total reported adjusted gross income will be between nine hundred million ($900,000,000) and one billion ($1,000,000,000) a rate of 1½% would return between $11,000,000 and $12,000,000 per year."[1]

The 1960 total adjusted gross income reported by the State Board of Equalization was $1,002,960,756. This tax could then be expected to raise $12,000,000 yearly, based on the estimates in the previous paragraph.

The simultaneous imposition of a general sales tax in addition to the proportional income tax should never be permitted. They are designed to tax about the same source. A comparison of the distribution of burden from a 2% general sales tax with a 1½% net income tax rate indicates a similar effect for annual net incomes of $2,000 to $10,000. The general sales tax places a heavier load on annual net incomes below $2,000 and a lighter load on incomes beyond $10,000.

A Complete Study Of Montana Tax Laws

Montana's tax structure is characterized by an extreme emphasis upon property for the financing of public services. Over the years, additional state taxes have been enacted and rates increased as state level needs for revenue have arisen. Considering the overall picture, these state level taxes have not financed adequately those functions which now have become dependent upon state support.

The present tax structure of the state is by accident rather than design. Montana is one of the relatively few states still dependent upon the classification of different types of property for taxation purposes. Considerable controversy revolves around the equity of the seven classes of property and their percentage factors. This controversy will not be alleviated by merely re-juggling, in a piecemeal fashion, the statutes. Some of the laws are so unworkable that efforts are not even made locally to collect taxes under some of the classifications.

A look into the future leads us to believe that there will be ever-increasing demands upon Montana's state level tax structure for financing of public services. Additional demands will be made in the field of public schools and higher education for financing enrollment and cost increases. Montana's present level tax structure is so narrow that it will not provide revenue of this magnitude.

We, therefore, recommend that a study be made of Montana's tax structure in order to determine the impact of its tax structure on the various kinds of economic endeavor and on Montana's competitive position in the various economic areas. In light of these studies, recommendations should be made for changes in the present tax structure to adjust adverse impacts on economic growth and development, remove inequities in the distribution of tax burden, and provide adequate revenue to meet the estimated needs of Montana's state and local governments in the future.

Other states, through outside independent agencies, or through committees formed in their own states, have made such "agonizing" reappraisals of their tax structure. It is our opinion that a legislative appropriation, sufficient to finance the cost of such a study by an out-of-state independent agency, should be made by the 1963 Assembly.

[1]Report of the Montana Taxation-Education Commission to the Governor, 1958, page 18.

V SUMMARY

The people of Montana, believing in public education, are exerting great effort (third in the nation) to provide that education for Montana's youth which is required in today's world. But even with greater effort we are slipping back in competitive position in teacher salaries over 1949, the first year of the Foundation Program. The cost of inflation has more than eroded the increases made in per-student expenditures in the 1949-61 period.

On a unit cost basis the Foundation Program schedule has increased about 35%, while the per-student operational cost has increased 51% from 1949-50 to 1961-62. Nationally, estimated current expenditure per pupil increased 69.5% in the last ten years (1951-52 to 1961-62) of this period.

Montana, highest in the West and fifth in the nation, in percentage of state and local taxes, derived from property, supports its schools primarily at local level with a property tax. In 1961 school support by government level:

	LOCAL Percent	STATE Percent	FEDERAL Percent
MONTANA	69.4	26.8	3.8
NATION	56.1	40.2	3.7

A major change in tax policy could shift more of the support to a state base; greater use of the county for basic levy would also broaden the base of support. Either would provide better equalization than the present plan.

The committee recommends the following changes which it believes will improve the existing plan, eliminate inequities and continue to move education forward within the basic principles adopted in 1949:

1. A uniform application form should be used in each county to submit requests for isolated status. The law should be amended to clarify procedure.

2. The State Board of Equalization has authority to obtain a reasonable degree of uniformity in classification and assessment practices. Employment by the Board of a qualified research analyst to qualitatively study tax laws and collections is recommended.

3. The permissive levy should be the difference between the minimum and maximum schedules, varying with need. If the minimum level of support is increased, the permissive would be reduced; if the minimum level of support is decreased, a larger permissive budget would be needed.

4. Failure to meet 100% of state obligations under the existing program results in less equalization. This state deficiency should be eliminated by added state support or larger basic county levies.

5. Adjustment of budgets to current enrollment can be accomplished; the enrollment basis for budget determination should more nearly correspond to the needs of the period in which these funds are expended. Use of a projection based on the previous three year's A.N.B. is recommended.

6. The 50% limitation on the state aid to any district produces major inequities in millage levies for support of the minimum program. Districts most in need of help, if the equalization of effort principle is followed, are penalized. The committee recommends the elimination of this limitation. Unless a major increase in state aid or a larger basic county levy accompanies this, the result will merely be a greatly enlarged state deficiency.

7. More realistic foundation program schedules (75% level of support) which eliminate inequities between various sizes of schools are recommended. Median expenditures for instructional services and the general fund should be reported annually by the State Department of Public Instruction. Using these as a basis, the Department should periodically develop schedules for median costs for the various sizes of schools.

8. The mechanics of distribution of state equalization funds should be changed. The original philosophy of equal opportunity with equal effort should be maintained. After the legislature has determined the level of support and the total state aid available, the balance needed would be raised by a uniform county property levy computed by the State Department of Public Instruction and applied by the county commissioners.

Alternatives are presented by which these can be accomplished. A major increase in state support through a new tax source could broaden the tax base and replace local property tax levies as well as meet the needs for increased funds to finance added enrollments, improved programs and increased costs. A larger basic county levy would also provide greater equalization and meet the same needs.

The Foundation Program principles have proven valid in Montana and the nation. Improved basic educational programs for all Montana boys and girls have resulted from the 1949 legislation. Greater equalization of effort was also accomplished. But inequities have developed in the past fourteen years. The committee's recommendations are designed to correct these within the framework of the original principles.

"It shall be the duty of the Legislative Assembly of Montana to establish and maintain a general, uniform and thorough system of public, free, common schools."

Section 1 of Article XI MONTANA CONSTITUTION of 1889.

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